BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR AN INCREASE IN ELECTRIC BASE RATES AND MISCELLANEOUS TARIFF CHANGES (FILED SEPTEMBER 18, 2009)	)))))	PSC DOCKET NO. 09-414
IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR APPROVAL OF A MODIFIED FIXED VARIABLE RATE DESIGN FOR ELECTRIC RATES (FILED JUNE 25, 2009)	)))))	PSC DOCKET NO. 09-276T

DIRECT TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF

THE COMMISSION STAFF

PUBLIC VERSION

February 10, 2010

DIRECT TESTIMONY OF RALPH C. SMITH
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I. Introduction

Q. Please state your name and business address.

A. Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

Q. What is your occupation?

A. I am a certified public accountant and a senior utility regulatory consultant with Larkin & Associates, PLLC, a firm of certified public accountants and regulatory consultants.

Q. Have you prepared an appendix summarizing your educational background and regulatory experience?

A. Yes. Appendix A attached hereto provides additional details concerning my experience and qualifications.

Q. On whose behalf are you appearing?

A. I am appearing on behalf of the Commission Staff ("Staff").

Q. Please describe the tasks you performed related to your testimony in this case.

A. Larkin & Associates obtained and reviewed the filings submitted by Delmarva Power & Light Company, Inc. ("Delmarva," "DPL" or "Company") in this docket and Docket No. 09-182 relating to the Company's request for (a) an accounting deferral of pension cost; and (b) the amount of pension expense that is appropriate for ratemaking purposes. I reviewed Company testimony and responses to data requests served upon DPL by Staff and other parties in this proceeding and Docket No. 09-182, and performed other procedures as necessary to obtain an understanding of the Company's proposed ratemaking treatment of pension costs and to formulate an opinion concerning the reasonableness and appropriateness of such proposals.

Q. What issues will you be addressing in your testimony?

A. My direct testimony identifies and discusses areas of concern with respect to DPL's proposed accounting deferral of 2009 pension costs and the amount of pension expense that should be allowed for ratemaking purposes.

Q. Have you prepared any exhibits that are included with your testimony?

A. Yes. Appendix B, which presents supporting schedules, and Appendix C, which presents responses to data requests and other documents that are referenced in my testimony. These Appendices are attached to my testimony. The supporting schedules were prepared by me or under my supervision and direction.

II. Summary of Conclusions and Recommendations

Q. Please summarize your conclusions and recommendations.

A. Based upon my review of the Company's testimony, the Company's discovery and responses, publicly available information, and my experience in the area of regulatory accounting, policy, and revenue requirement determinations, my conclusions and recommendations in this matter are as follows:

- The Company's request to defer 2009 pension costs for accounting purposes as a regulatory asset should be rejected.

- The Company's related ratemaking proposal for "regulatory asset" treatment of 2009 pension related costs portrayed on Delmarva witness Ziminsky's Schedule JCZ-3, which would establish a regulatory asset of $8.972 million amortized over three years (with the unamortized balance included in rates), for a net increase in the revenue requirement of approximately $3.515 million, should be rejected.
- The pension expense requested by the Company for inclusion in rates, based upon 2009, is abnormally high. A normalized allowance for pension expense should be used. For the reasons explained in my testimony, I recommend a normalized allowance for pension expense based on an average of 2008 and 2009. The pension expense included in DPL's filing should be reduced from $8.002 million on a DPL electric distribution-related basis to $4.022 million. The impact is a reduction to the Company's filing of $3.979 million on a DPL electric distribution-related O&M expense basis.

Q. How did you coordinate your recommendations on the pension issue with other witnesses for Staff?

A. I provided my recommendations on the pension issue to Staff witness Donna Mullinax, who is presenting the revenue requirement calculations and is addressing DPL's proposed Volatility Mitigation Rider (Rider VM), which encompasses related issues involving pension expense, other post-employment benefit ("OPEB") expense, and uncollectibles expense,.

III. Pension Cost Accounting Deferral Request

Q. Please discuss DPL's request to defer 2009 pension costs for accounting purposes.

A. On May 1, 2009, DPL filed a request for authorization to defer "excess" pension costs from the Company's financial statements as a result of "the effect of recent economic developments on pension assets." This matter was designated as Docket No. 09-182, and was recently consolidated into the current DPL rate case by Order No. 7727, dated January 7, 2010.

DPL submitted testimony in support of its request from Company witness Anthony Kamerick, Senior Vice President and Chief Financial Officer of Pepco Holdings, Inc. ("PHI") and Senior Vice President and Chief Financial Officer of Delmarva. DPL sought to establish a regulatory asset for an alleged shortfall between Delmarva's actual 2009 pension expense and the amount of pension income that is currently included in Delmarva's distribution rates.

Additionally, on January 13, 2010, DPL filed Supplemental Direct Testimony on Pension from Jay Ziminsky, Manager of Revenue Requirements in the Regulatory Affairs Department of PHI.

Q. What amounts for pension cost has the Company sought to defer?

A. The Company requests deferral of $8.972 million of pension costs by establishing a regulatory asset in that amount. This amount is based on the difference between (1) the actuarially determined 2009 pension expense, which Mr. Ziminsky calculates to be $8,001,610 and (2) the ($970,783) of pension income that he calculates was inherently included in the rates resulting from DPL's last rate case, Docket No. 05-304.[1] The amounts include both DPL pension costs and PHI Service Company pension costs that are charged to DPL. (See Ziminsky Supplemental Direct Testimony at pages 3-4 and Schedule JCZ-2).

Q. What reasons did the Company give for its requested ratemaking treatment?

A. The Company cites the following reasons:

[1] Brackets indicate net pension income, i.e., negative pension expense. DPL's calculation of the amount "inherently included" in the rates established in Docket No. 05-304 ignored the $1,758,180 annual revenue requirement amount for the related pension asset, per DPL's response to DPA-P-2.

- The Delaware Electric Distribution pension expense dramatically increased in 2009 as a direct result of adverse overall economic conditions.[2]
- The increase was out of the Company's control.[3]
- Pension expense should be viewed similar to storm damages.[4]

An affidavit dated November 11, 2009, filed by DPL from Company witness Kamerick also stated (at paragraph 8) that:

> If approval is not received by December 31, 2009 to record a regulatory asset for the 2009 excess pension expense, then Delmarva's 2009 operating results and financial metrics will be irreparably harmed. An order received in January 2010 or later permitting deferral of the 2009 excess pension expense would be properly accounted for in the 2010 or later period (the period in which the order is received) and would not cause a restatement of the 2009 operating results. Without the requested treatment of the excess pension expense as a regulatory asset by December 31, the $13.077 million will remain recorded as expense in Delmarva's 2009 financial statements.[5]

Q. Did this Commission approve the regulatory asset accounting treatment by December 31, 2009?

A. No. The matter of the regulatory account for DPL's electric distribution portion was consolidated into the current DPL electric rate case. DPL witness Ziminsky states at page 2, lines 20-21, of his supplemental testimony that "[t]he remaining deferred pension portion attributable to Delaware gas customers will be decided as part of the Company's next gas base rate case." Because this Commission did not approve regulatory asset accounting treatment by December 31, 2009, as stated by Company witness Kamerick, this will remain recorded as expense in Delmarva's 2009 financial statements.

[2] Ziminsky 1/13/2010 Supplemental Direct at page 4.
[3] Id.
[4] Id at page 5.
[5] The $13.077 million is a combination of $8.002 million for electric distribution and $3.927 milllion for gas distribution. Amounts are from Kamerick affidavit dated 11/10/2009 at paragraph 6.

Q. What is DPL specifically requesting for the 2009 pension "regulatory asset" for ratemaking purposes?

A. As shown on Mr. Ziminsky's Schedule JCZ-3, the Company is requesting amortization of the 2009 pension "regulatory asset" of $8.972 million over three years, for an annual pre-tax expense operating increase of $2.991 million, and that the "Year 1" unamortized balance of $7.477 million be included in rate base, net of related Accumulated Deferred Income Taxes ("ADIT"), for a net rate base increase of $4.437 million. Using the Company's proposed net-of-tax rate of return, Mr. Ziminsky's Schedule JCZ-3 shows that this requested ratemaking treatment would <u>increase</u> DPL's revenue requirement by approximately $3.515 million.

Q. Have DPL and its affiliate PEPCO sought similar "regulatory asset" treatment relating to 2009 pension costs in Maryland?

A. Yes. The Maryland Public Service Commission considered an application of Delmarva Power & Light Company for Authorization to Establish a Regulatory Asset for Pension Costs and a similar Application of Potomac Electric Power Company[6] for Authorization to Establish a Regulatory Asset for Pension Costs in 2009.

Q. Were those applications approved?

A. No. In letters dated August 13, 2009, the Maryland Commission indicated that its Technical Staff and the Maryland Office of People's Counsel had both recommended that

[6] Potomac Electric Power Company ("PEPCO") is an affiliate of Delmarva.

the Commission reject the Applications. The Maryland Commission rejected the requests. In its letter to Delmarva-Maryland, the Commission stated:

> At the Meeting, the Commission questioned the Company's representative extensively as to the basis for the Company's request to establish a regulatory asset resulting from the impact of recent economic developments on pension cost. The Company's primary argument in support of obtaining special regulatory treatment for the estimated pension costs is that the expenses for 2009 are far larger than in any year since 2005. Delmarva asserts that if the Commission rejects its Application, the "Company will be deprived of the opportunity to earn its authorized rate of return and, will, in fact, be guaranteed to earn substantially less." Delmarva then predicts that lesser earnings will adversely affect the "Company's credit ratings and financial position which, in turn, will ultimately adversely impact the Company's customers in the form of higher rates." If the regulatory asset is approved, Delmarva asks that it be continued until "such time as recovery of these additional costs is provided for in Commission-approved base rates."
>
> Delmarva currently has a base rate case pending before the Commission. Under the current procedural schedule, the Commission is required to issue an order in the case by December 2, 2009. The Company was unable to explain why the necessary recovery of the 2009 pension costs could not be considered in this pending base rate case, when the decision in the matter would be issued in 2009.
>
> Pension costs are one of many operational expenses that are included in rates that Delmarva's customers pay for electric distribution services. The recovery of pension costs historically is considered as one of several cost components during a base rate case, and normally is considered in the context of the Company's overall costs, revenues and capital structure. Delmarva is asking the Commission to approve special regulatory treatment of the 2009 pension costs outside of a base rate case, even though Delmarva has a base rate pending. Although establishing a regulatory asset for these costs may not affect current rates, that decision may have an impact in the current (or a future) rate case. The Commission respectfully declines to consider pension costs in a ratemaking vacuum, and finds the Company has not articulated a compelling, principled basis for departing from long-standing ratemaking principles in this fashion.
>
> Accordingly, the Commission rejects Delmarva's Application. The Commission suggests Delmarva pursue the recovery of these pension costs as part of its pending base rate case.

Q. How did the Maryland Commission address Delmarva's request to defer and amortize pension expense in Delmarva's then-pending Maryland rate case?

A. In Order No. 83085 (dated December 30. 2009) in Case No. 9192, the Maryland Commission again rejected Delmarva's proposal to defer and amortize pension expense, finding that it represented single-issue ratemaking. At pages 15-16 of that order, the Maryland Commission stated:

> We rejected similar proposals in Delmarva's last rate case because surcharges guarantee dollar-for-dollar recovery of specific costs, diminish the Company's incentive to control those costs, and exclude classic, ongoing utility expenses from the standard, contextual ratemaking analysis. We found before that tracker mechanisms, like the surcharge and amortization proposals in this case, represent an extraordinary form of ratemaking that we reserve only for very large, non-recurring expense items that have the potential to seriously impair a utility's financial well-being and that do not contribute to the Company's rate base. Pension and OPEB expenses fail this test, even in a bad year – they are classic, ongoing costs of running a utility company, and cannot, in our view, qualify for specialized rate treatment. We find again, as we did in 2007, that a pension and OPEB surcharge breaches the historical ratemaking bargain, and the economic challenges of the last two years offer no reason for us to jettison these long-settled principles. We therefore reject the Company's surcharge and amortization proposals and direct it to continue recovering these expenses through rates.
> (footnotes omitted).

Q. What is Staff's recommendation concerning the Company's request for regulatory asset treatment of pension expense?

A. Its proposal is the equivalent of single-issue ratemaking and should be rejected. The Company has never had an automatic deferral mechanism for pension expense, and it has not demonstrated that pension expense requires special single issue ratemaking treatment now. It is not appropriate to treat pension expense as a single issue for automatic deferral and future recovery.

Q. Could the adoption of DPL's proposed regulatory asset treatment for its 2009 pension costs provide a disincentive for making just and reasonable reforms to the Company's pension plans?

A. I believe that it could. Factors such as worker mobility, the ERISA and other compliance and reporting requirements, and the increased costs of defined benefit pension plans have hastened their decline, and there is a discernible trend away from such plans. Providing what essentially would amount to a guarantee of the abnormally high 2009 pension expense recovery could deter the Company from making reforms to its pension plans that would reduce cost, as many companies are doing.

Q. What evidence do you have that indicates a trend away from defined benefit plans?

A. In March 2009, the U.S. Government Accountability Office issued a report (GAO-09-291, dated March 30, 2009)[7], which concluded that:

> **The number of private defined benefit (DB) pension plans**, an important source of retirement income for millions of Americans, **has declined substantially over the past two decades. For example, about 92,000 single-employer DB plans existed in 1990, compared to just under 29,000 single-employer plans today.** Although this decline has been concentrated among smaller plans, **there is a widespread concern that large DB plans covering many participants have modified, reduced, or otherwise frozen plan benefits in recent years.** GAO was asked to examine (1) what changes employers have made to their pension and benefit offerings, including to their defined contribution (DC) plans and health offerings over the last 10 years or so, and (2) what changes employers might make with respect to their pensions in the future, and how these changes might be influenced by changes in pension law and other factors. To gather information about overall changes in pension and health benefit offerings, GAO asked 94 of the nation's largest DB plan sponsors to participate in a survey; 44 of these sponsors responded. These respondents represent about one-quarter of the total liabilities in the nation's single-employer insured DB plan system as of 2004. The survey was largely completed prior to the current financial market difficulties of late 2008.

[7] A copy of the complete GAO study can be obtained online at: http://www.gao.gov/new.items/d09291.pdf

> GAO's survey of the largest sponsors of DB pension plans revealed that **respondents have made a number of revisions to their retirement benefit offerings over the last 10 years or so. Generally speaking, they have changed benefit formulas; converted to hybrid plans (such plans are legally DB plans, but they contain certain features that resemble DC plans); or frozen some of their plans.** Eighty-one percent of responding sponsors reported that they modified the formula for computing benefits for one or more of their DB plans. Among all plans reported by respondents, 28 percent of these (or 47 of 169) plans were under a plan freeze--an amendment to the plan to limit some or all future pension accruals for some or all plan participants. The vast majority of respondents (90 percent, or 38 of 42 respondents) reported on their 401(k)-type DC plans. Regarding these DC plans, a majority of respondents reported either an increase or no change to the employer or employee contribution rates, with roughly equal responses to both categories. About 67 percent of (or 28 of 42) responding firms plan to implement or have already implemented an automatic enrollment feature to one or more of their DC plans. With respect to health care offerings, all of the (42) responding firms offered health care to their current workers. Eighty percent (or 33 of 41 respondents) offered a retiree health care plan to at least some current workers, although 20 percent of (or 8 of 41) respondents reported that retiree health benefits were to be fully paid by retirees. Further, 46 percent of (or 19 of 41) responding firms reported that it is no longer offered to employees hired after a certain date. At the time of the survey, most sponsors reported no plans to revise plan formulas, freeze or terminate plans, or convert to hybrid plans before 2012. When asked about the influence of recent legislation or changes to the rules for pension accounting and reporting, responding firms generally indicated these were not significant factors in their benefit decisions. Finally, a minority of sponsors said they would consider forming a new DB plan. Those sponsors that would consider forming a new plan might do so if there were reduced unpredictability or volatility in DB plan funding requirements and greater scope in accounting for DB plans on corporate balance sheets. **The survey results suggest that the long-time stability of larger DB plans is now vulnerable to the broader trends of eroding retirement security. The current market turmoil appears likely to exacerbate this trend.**

I am also aware that the following utilities have closed, frozen, significantly modified or discontinued their defined benefit pension plans:

- PacifiCorp / Rocky Mountain Power – In 2007, the company froze the final average pay formula for non-union employees and will make future accruals under a cash balance formula. Employees hired on or after 1/1/08 do not participate in the retirement plan. In 2008: (1) the company also froze the final average pay formula within the retirement plans and ceased future accruals for Local 659 union employees and Local S1978 union employees; and (2) the company froze the final average pay formula within the retirement plan and ceased future accruals for Local 125 union employees hired prior to 1/1/06 and over a certain age. Effective 1/1/09, non-union employees were permitted to choose to continue receiving pay credits under the cash balance formula approach within the retirement plan or receive the credits as additional fixed contribution within the 401(k) plan during a limited election period.

- American Water Works Company, Inc. – The company closed the defined benefit pension plan to all non-union employees hired on or after 1/1/06, and froze the accrued benefits under the defined benefit plan for union employees hired on or after 1/1/01.
- Aqua America, Inc. Employees hired after April 1, 2003 do not participate in the Company's defined benefit pension plans.
- Verizon – As of 6/30/06, Verizon management employees no longer earn pension benefits under the defined benefit plan.
- Shenandoah Telecommunications Company – The defined benefit pension plan was frozen as of 1/31/07; the company also announced its intent to settle benefits earned under the plan and terminate the plan.
- Cincinnati Bell – Effective 3/28/09, the company froze pay-related pension credits under the defined benefit pension plan for managers and non-union employees who were accruing benefits under such plan, were under the age of 50, and were not eligible for the 2007 early retirement option.

Additionally, United Illuminating Company, Vermont Electric Cooperative (union employees), Connecticut Natural Gas, Southern Connecticut Gas, and Northeast Utilities no longer offer defined benefit pension plans to new hires or only allow for the cash balance plan for new hires.

Additionally, see Appendix C for the following other related articles and studies:

- Excerpt from Waters Corporation's September 4, 2007 Form 8-K.
- Dow Jones Newswire article – "Pension-Plan Freezes Likely to Ramp Up Next Year" (By Lynn Cowan, March 20, 2009).
- Pension Rights Center: Pension Publications listing – Companies That Have Changed Their Defined Benefit Pension Plans (As of April 2, 2009).
- GAO Defined Benefit Pensions – Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges (A copy of the complete GAO report can be obtained online at: http://www.gao.gov/new.items/d08817.pdf).
- GAO Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans (July 2008).
- Deloitte 2008 Survey of Economic Assumptions.

Q. Please summarize your recommendation concerning DPL's proposal to create a "regulatory asset" for 2009 pension costs.

A. DPL's proposed "regulatory asset" treatment for 2009 pension expense should be denied because it:

- is bad regulatory policy,
- is unwarranted,
- would inappropriately shift risk of fluctuating pension costs between rate cases away from shareholders and onto ratepayers,

- would reduce incentives to revise the pension plan to reduce cost,
- constitutes single-issue rate making, by focusing on changes in a single cost that could be offset by changes in other costs,
- could result in charging ratepayers for abnormally high pension costs in a particular year,
- is not beneficial to ratepayers,
- since 2009 has now passed and the Company has recorded the expense, allowing a regulatory asset to be recorded at this time could be viewed as a form of retroactive ratemaking that is generally prohibited,
- pension expense is somewhat under the Company's control via the plan design and management's funding decisions.

IV. Normalized Pension Expense for Ratemaking Purposes

Q. What amount is DPL requesting for pension expense for ratemaking purposes?

A. DPL is requesting pension expense for ratemaking purposes for its Delaware electric distribution operations of approximately $8.002 million based on its 2009 results.

Q. Has DPL reflected the $6.6 million reduction to the revenue requirement mentioned on page 40, line 8, of Mr. VonSteuben's direct testimony?

A. No. The Company's response to PSC-LA-13 confirms that DPL did not reflect the $6.6 million reduction. Apparently, DPL did not reflect this because its proposal is tied to its alternative recommendation to use the Rider VM (and therefore, the rolling 3-year average which DPL has proposed as part of that mechanism). Staff witness Mullinax is presenting Staff's position on DPL's proposed Rider VM.

Q. Is DPL's 2009 pension expense representative of normal ongoing conditions?

A. No. The 2009 pension expense is abnormally high. Defined benefit pension plan costs for many companies, not only Delmarva and its affiliates, were higher than normal in 2009 because of the poor investment returns that occurred in the wake of the worldwide financial crisis that began in 2008.

Q. Is the level of pension expense requested by DPL for inclusion in determining the revenue requirement just and reasonable?

A. Based on my review, the level of pension expense in DPL's proposed revenue requirement is not just and reasonable. Rather, it is abnormally high. Moreover, it is not reflective of the pension expense that has typically been recorded in prior years and could considerably overstate pension expense to be incurred during the rate effective period.

Q. Has the Company supplied historical information on DPL's total pension cost?

A. Yes. The 2009 pension expense experienced by DPL based on the actuarial report is much higher in previous years. DPL had net pension income in each year 1999 through 2008, and 2009 was the first year in which DPL had a net periodic pension expense. The 2009 results were abnormal in comparison with the prior history. In response to PSC-LA-50, the Company provided DPL's total pension costs (or pension income) inclusive of gas and electric amounts that were capitalized and expensed for each year 1999-2009, which is summarized below:

Year	Total DPL Pension (Income) Cost ($000)
1999	$ (31,663)
2000	$ (43,839)
2001	$ (18,618)
2002	$ (10,248)
2003	$ (2,634)
2004	$ (9,256)
2005	$ (8,531)
2006	$ (6,580)
2007	$ (6,179)
2008	$ (6,033)
2009	$ 13,438

As can be seen from this information, 2009 was the only year in which DPL recorded a net positive pension cost in this entire 11-year period.

Q. You indicate that the pension expense in DPL's proposed revenue requirement is not just and reasonable and likely not reflective of the costs that will be incurred in the rate effective period. Please explain.

A. In its filing, DPL has requested for ratemaking purposes an allowance for pension expense based on the 2009 actuarial results allocated to Delaware electric distribution operations. This amount is inclusive of DPL's own pension costs and PHI Service Company costs allocated to DPL. The pension cost included in the filing was based on estimates provided in a valuation report dated August 2009 prepared by Watson Wyatt Worldwide ("WWW"), the actuarial firm retained by DPL and its affiliates. As described above, the amount of pension cost DPL recorded in 2009 was abnormally high in comparison to the amounts recorded in each year from 1999 through 2008. DPL had recorded pension income, not a net pension expense, in each of those prior years. At this point, it is likely that the pension expense incurred by DPL during the rate effective period, or beginning in January 1, 2010, will be lower than the projected 2009 costs included in the filing.

Q. Please discuss the actuarial report relating to the 2009 pension costs.

A. WWW's actuarial valuation report includes the impact of the fair value of plan assets and the market-related value of plan assets as of January 1, 2009; the impact of the actuarial loss experienced in 2008; and the actuarial assumptions selected by DPL for 2009.

Q. What are the primary drivers behind the increase in pension expense from the test year to the year ending December 31, 2009?

A. While several factors can impact the amount of pension cost recorded by a company that has a defined benefit plan, the primary driver behind the increase in pension cost that DPL experienced in 2009 is the actuarial loss the pension plan experienced during 2008. For 2008, the Company's actuarial assumptions included a long-term rate of return on plan assets assumption of 8.25%; however, during 2008 the Company experienced a significant negative return on the fair value of assets (i.e., a decline in asset value), resulting in a significant actuarial loss in that period and a significant reduction in the plan assets. This loss affected two separate components of the pension expense calculation; specifically, the component for the expected return on plan assets and the net loss/(gain) amortization. On a total PHI basis, the expected return on assets (which is a reduction or offset in the pension expense equation) went from $129.99 million in 2008 to $101.07 million in 2009, resulting in a $28.92 million increase in pension expense. On a total PHI basis, the net loss amortization (which is an increase in the pension expense equation) went from $8.4 million to $53.9 million, resulting in a $45.5 million increase in pension expense. Based on a review of the information provided by the Company, including the actuarial reports, the loss in plan asset value experienced in 2008 is the primary driver behind the increase in the pension costs between 2008 and 2009.

Q. Please discuss DPL's historical pension funding and how plan funding and asset levels affect pension cost.

A. Typically, all other things being equal, the better funded a pension plan is, the lower the pension expense. This is because of the larger expected return on plan assets which serves to offset pension expense in the pension expense equation. Additionally, the funding of pension plan assets serves to reduce future pension costs for many years.

During the 2006-2008 period, DPL made no (i.e., $0) cash contributions to its pension plan assets. In 2009, DPL contributed $10 million to the pension plan fund assets. The WWW report indicated that the total contributions in 2009 on a total PHI basis will be $300 million, and indeed from April 1 through July 6, 2009, PHI made discretionary tax-deductible contributions to the pension plan of approximately $300 million.[8] The impact of these cash contributions on the pension expense actuarial calculations will not be fully realized during 2009 because the contributions occurred during 2009. By the time the 2010 actuarial calculations are performed, the full impact of the 2009 contributions on the pension expense calculations will be incorporated.

[8] Response to data request PSC-A-69(a).

Q. How did the pension assets and pension fund earnings for 2008 and 2009 compare?

A. Based on the Company's confidential response to PSC-LA-64, on a total PHI basis the pension plan had assets of $**XXX** billion as of December 31, 2008. During 2008, the one-year return on pension assets was **XXX** percent (i.e., a loss of **XXX** percent). In contrast, in 2009 the one-year return on pension assets was **XXX** percent (i.e., a net positive return of **XXX** percent) and the pension asset balance at December 31, 2009 had grown to approximately $**XXX** billion.

Q. Has DPL provided additional information regarding its projected pension costs for years beyond 2009?

A. Yes. The Company Company's response to PSC-LA-63 included a projection based on the use of WWW's proprietary model. That response indicates that the projections are used for high level budgeting and planning purposes, and the model has a number of assumptions that have not been updated and does not have the sophistication of an actuarially determined amount. On a total PHI basis, WWW currently forecasts pension costs to **XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** In summary, the total PHI net periodic benefit cost is projected to **XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**

Q. What is your recommendation for setting the level of pension expense to be included in rates?

A. I recommend the pension expense to be included in rates on a going-forward basis be determined based on the average of the actual 2008 pension expense and the 2009 pension expense based on the WWW actuarial valuation, as allocated to DPL's Delaware electric distribution operating and maintenance expense. While it is likely that the pension expense to be incurred during the rate effective period will exceed the amount recorded on DPL's books during 2008, I also believe it will be lower than the amount recorded on DPL's books during 2009. Using an average of the 2008 and 2009 pension expense would result in a reasonable estimate of the costs to be recorded on the Company's books in the rate effective period, which begins in 2010. While the Company may argue that the 2009 pension expense contained in the 2009 actuarial report is a known and measurable figure, it is neither known nor, in my opinion, is it likely that this expense is normal or representative or would be reflective of the costs in the rate effective period.

Q. Why have you used a two-year period rather than a three-year period for determining a normalized amount for pensions?

A. Adding in the third year (2007) to the two years used (2008 and 2009) would significantly <u>reduce</u> the amount of the recommended normalized allowance. For 2007, DPL's Delaware Electric Distribution operations had negative pension expense (i.e., net pension income of $54,401[9]) and including that in a three-year average would produce an average amount of only $2,663,474[10] which does not appear to be representative of recent levels or going forward expectations.

[9] See, e.g., the Company's response to data request PSC 2-6 in Docket No. 09-182.
[10] Id.

Q. What adjustment should be made to the filing?

A. Appendix B, Schedule RCS-1 shows the adjustment that is necessary to set the pension expense in rates based on the average of the 2008 and 2009 pension expense. The schedule incorporates the actual 2008 pension expense ($43,214 on a DPL electric distribution-related basis) and the 2009 pension expense based on the recent actuarial report ($8,001,610 on a DPL electric distribution-related basis) in deriving the average. As shown in the schedule, the pension expense included in DPL's filing should be reduced from $8,001,610 on a DPL electric distribution-related O&M expense basis to $4.022 million. The impact is a reduction to the Company's filing of $3.979 million on a DPL electric distribution-related O&M expense basis.

Q. Did you provide this adjustment to another Staff witness?

A. Yes. I provided the adjustment to normalize pension expense to Staff witness Mullinax for incorporation into Staff's proposed revenue requirement.

Q. Does this complete your testimony?

A. Yes, it does.

APPENDIX A

Appendix A
QUALIFICATIONS OF RALPH C. SMITH

Accomplishments
Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed was the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)

80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933*	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)
U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)

R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA	
&76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA	
& 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-856460O1	
& ER-85647001	New England Power Company (FERC)
850782-EI &	
850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU	
& 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities
T E-1032-88-102	Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf+ Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)
R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)

R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102 & U-1551-89-103	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and TC-91-040B	Intrastate Access Charge Methodology, Pool and Rates Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS & 911-67-WS	General Development Utilities - Port Malabar and West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314 & M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 & U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 & U-1032-93-193	Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/ E-1032-93-169	Sale of Assets CC&N from Contel of the West, Inc. to Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR*	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed Staff Investigation	Citizens Utility Company - Arizona Telephone Operations (Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)

GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power &Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed Staff Investigation	Delaware - Estimate Impact of Universal Services Issues (Delaware PSC)
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60, U-98-65, U-98-67	Investigation of 1998 Intrastate Access charge filings (Alaska PUC)
(U-99-66, U-99-65, U-99-56, U-99-52)	Investigation of 1999 Intrastate Access Charge filing (Alaska PUC)
Phase II of 97-SCCC-149-GIT	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed Assistance	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed Project	Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)
E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)

Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No. 98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No. 99-01-016, Phase I	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020 Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)

U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No. E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
Case No. 05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No. 03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363, Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM, Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022, U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)

03-93-EL-ATA, 06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No.UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0085	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)

APPENDIX B

Delmarva Power & Light Company
Delaware Electric Distribution Operations

Docket Nos. 09-182 et al
Appendix B
Schedule RCS-1

Adjustment to Normalize Net Pension Expense

Line	Description	Amount	Reference
	Pension Expense:		
1	2008	$ 43,214	
2	2009	$ 8,001,610	DPL Sch JCZ-2, L19
3	Average	$ 4,022,412	
4	DPL Requested	$ 8,001,610	DPL Sch JCZ-2, L19
5	Adjustment	$ (3,979,198)	

Additional Notes and Source

Lines 1&2: PSC 2-6 in PSC Docket No. 09-182

APPENDIX C

DELMARVA POWER & LIGHT COMPANY
Docket No. 09-414 et al.
Appendix C
Copies of Delmarva's Responses to Data Requests and Documents Referenced in the Direct Tesimony and Schedules of Ralph C. Smith

Delmarva Confidential Pages Have Been Redacted

PSC DOCKET NO. 09-414 & 09-276T
DIVISION OF THE PUBLIC ADVOCATE
PENSION DEFERRAL DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

Question No. : DPA-P-2.
Please quantify the annual revenue requirement impact of the pension asset included in rate base in the Company's last base rate case. Please provide all assumptions, workpapers, and supporting calculations with your response

RESPONSE:
Annual revenue requirement impact of the pension asset as approved in Docket No. 05-304:

Pension Asset (net of tax)	$16,648,593
Net of Tax Rate of Return	6.23%
Earnings Requirement	$1,037,207
Revenue Conversion Factor	1.69511
Revenue Requirement	$1,758,180

Respondent: Jay C. Ziminsky

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S DATA REQUESTS TO DELMARVA POWER & LIGHT COMPANY
PENSION/OTHER POST-EMPLOYMENT BENEFITS
UNCOLLECTIBLE EXPENSE

Question No.: PSC-LA-13
Has the Company reflected the $6.6 million reduction to the revenue requirement mentioned on page 40, line 8, of Mr. VonSteuben's direct testimony? If not, explain fully why not.

RESPONSE:

No. As Mr. VonSteuben discusses on page 39 beginning on line 17, while this innovative price mitigation rider is an alternative that the Company believes should be approved, the Company's Direct Filing supports the use of the traditional approach previously approved by the Commission.

Respondent: W. Michael VonSteuben

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S FOLLOW UP PENSION/OPEB/UNCOLLECTIBLE DATA REQUESTS TO DELMARVA POWER & LIGHT COMPANY

Question No. : PSC-LA-50
Refer to the Company's responses to PSC-LA-14 and DPA-A-29. (a) Please provide a comparison of the amount of (1) Pension income (i.e., negative pension cost) recorded on DPL's books for each year 1999 through 2008 with (2) the amount of pension cost that was included in the determination of DPL's revenue requirement that applied for each year. Please provide the amounts for DPL pensions and allocated affiliate pensions separately. (b) Please include with your response a copy of related calculations made by DPL and/or other parties concerning pension cost in each DPL rate case before the Delaware PSC during this period.

RESPONSE:

As requested in DPA-A-29, these costs reflect DPL's total Pension costs (income) booked that are either capitalized or expensed.

Year	(000's) Total DPL Amount
1999	$(31,663)
2000	$(43,839)
2001	$(18,618)
2002	$(10,248)
2003	$(2,634)
2004	$(9,256)
2005	$(8,531)
2006	$(6,580)
2007	$(6,179)
2008	$(6,033)
2009	$ 13,438

In terms of pension expense that was included in the determination of DPL's revenue requirement in Docket No. 05-304, please see Schedule JCZ-2 of Company Witness Ziminsky's supplemental testimony. The basis for the pension income of $971,000 that is currently in rates (and has been since the May 1, 2006 effective date of Docket No. 05-304) is detailed on that schedule. Pension expense that was included in the determination of DPL's revenue requirement from 1999 to April 30, 2006 is not available.

b. See the revised response to 2-6 and revised response to 1-9 in Docket No. 09-182 provided to the Staff and parties in this proceeding on Jan. 13, 2010. These responses reflect the amount of pension expense included in base rates for the only electric base rate case filed during this period, Docket No. 05-304 decided in April 2006.

Respondent: Jay C. Ziminsky

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S ACCOUNTING SET OF DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

Question No. : PSC-A-69
PHI's 2008 Form 10-K (page B-121) contains the following assertion: "Although PHI projects there will be no minimum funding requirement under the Pension Protection Act guidelines in 2009, PHI expects to make a discretionary tax deductible contribution of approximately $300 million to bring its plan assets to at least the funding target level for 2009 under the Pension Protection Act." With respect to these statements: a. Was the $300 million contribution made? If so, when? b. How much of the $300 million cash contribution will be contributed by Delmarva? c. Provide a detailed narrative explaining the basis of PHI's assertion that there will be no minimum funding requirement under the Pension Protection Act guidelines in 2009, including a discussion of the requirements of the "guidelines" referenced in the 1O-K d. Provide a detailed narrative identifying and explaining the "funding target level for 2009 under the Pension Protection Act." e. Explain the difference between the Pension Protection Act "guidelines" referenced by PHI (which apparently require no funding), and the "funding target level" under the Pension Protection Act. f. Explain what the practical consequences would be to the Company's pension plan and for the Company's pension obligations if PHI did not make a discretionary contribution to the pension plan to achieve the funding target level for 2009.

RESPONSE:

(a) PHI made the 300 million contribution over the April 1 to July 6, 2009 timeframe.
(b) DPL contributed $10 million to the pension trust in 2009.
(c) – (f) The Pension Protection Act of 2006 (PPA) made significant changes to the tax rules that apply to defined benefit pension plans. The new funding rules were enacted to address Congressional concerns about pension plan underfunding. As a result, the new rules are designed to require plans to be fully funded on an on-going basis and accomplishes this by requiring that funding shortfalls be amortized over a seven-year period. Generally, the new rules require increased annual contributions and may result in greater fluctuations in funding requirements from one year to another.

The PPA rules are extremely complex, with special rules, exceptions, and requirements that apply. The funding rules are primarily interpreted and administered by actuaries. Generally, if a plan incurs a funding shortfall in the preceding plan year (i.e. the asset value, less any available credit balance from prior funding, divided by the liability is less than the phased-in target percentage), there are required quarterly contributions in the plan year and following plan year. If a plan has sufficient credit balance from prior contributions, it can be applied to eliminate the quarterly minimum contribution. The PHI plan satisfied the minimum required contribution rules in 2008 and applied a small portion of its credit balance in 2009 to eliminate a required quarterly contribution. However, there are additional funding rules and tests that apply to avoid benefit restrictions and increased funding and reporting requirements. PHI made the $300 million contribution to ensure it would continue to meet minimum funding requirements (quarterly contributions) as well as be sufficiently well-funded to avoid benefit restrictions and related notice requirements prescribed by the PPA.

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S ACCOUNTING SET OF DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

The Pension Protection Act of 2006 requires plan sponsors to achieve a funding target of 100% of the liability. The requirement to reach 100% funding level was phased in over several years. PPA was effective 1/1/2008 and plans were required to be 92% funded in 2008, 94% funded in 2009, 96% funded in 2010, and 100% funded in 2011 and thereafter. Plan sponsors are required to fund shortfalls between plan assets and phased-in funding targets over seven years.

If PHI did not contribute the $300 million to the pension plan for 2009, the 2009 PHI net periodic pension cost would have been $15.2 million higher. Further, if PHI did not meet the IRS prescribed funding targets under the Pension Protection Act of 2006, there would be limitations on lump sum payments to retiring employees, increased mandatory funding requirements, and additional reporting requirements.

Respondent: W. Michael VonSteuben

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S FOLLOW UP PENSION/OPEB/UNCOLLECTIBLE DATA REQUESTS TO DELMARVA POWER & LIGHT COMPANY

Question No. : PSC-LA-64
(a) Please provide the actual balance in the pension trust as of 12/31/2009. Provide this for DPL and PHI separately. For each, also show the respective allocated amounts for DPL Delaware Electric Distribution. (b) Please provide the actual balance in the DPL and PHI pension plan trusts as of each of the following dates, broken down by asset categories: (1) 12/31/2008; (2) 3/31/2009; (3) 6/30/2009; (4) 9/30/2009; (5) 12/31/2009; and as projected for 6/30/2010 and 12/31/2010. (c) Please provide the actual total percentage return on the pension plan assets for the DPL and PHI pension plans (1) through 9/30/2009 and (2) through 12/31/2009. (d) Please provide the actual total percentage return on the pension plan assets for the DPL and PHI pension plans from 7/1/2009 through 12/31/2009.

RESPONSE:

(a) The pension asset value at 12/31/09 has not been made available publicly. Any Company disclosure related to the funding contribution will be made in the Company's 10-K.
(b) Please refer to the attachment which shows a PHI trust report by major asset category for the actual periods requested. There are no projections of future periods.
(c) , (d) Please refer to the attachments provided in response to (b)

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Respondent: Jay C. Ziminsky

PAGES 8-9 ARE CONFIDENTIAL AND HAVE BEEN REDACTED

PSC DOCKET NO. 09-414 & 09-276T
STAFF'S FOLLOW UP PENSION/OPEB/UNCOLLECTIBLE DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

Question No. : PSC-LA-63
Please provide all analyses and documentation relating to projections of 2010 and/or 2011 pension cost for the Company and PHI. Include details concerning such calculations including but not limited to: (a) estimated discount rates; (b) discount rate sensitivity; (c) earnings on plan assets; and(d) plan asset levels.

RESPONSE:
The actuary's proprietary model attached is used to develop projections of pension expense. It is premature to determine the 2010 or 2011 or later pension expense as the actuary must receive the updated 2010 census data and the assumptions to apply to the 2010 valuation and run the data through its detailed valuation model. Projections attached here are used for high level budgeting or planning purposes. This model has a number of assumptions that have not been updated and does not have the sophistication of an actuarially determined amount.

CONFIDENTIAL

Respondent: Jay C. Ziminsky / Anthony J. Kamerick

PAGES 11-12 ARE CONFIDENTIAL AND HAVE BEEN REDACTED

IN THE MATTER OF THE PETITION OF DELMARVA POWER & LIGHT COMPANY FOR AUTHORIZATION TO DEFER CERTAIN CHANGES TO THE COMPANY'S FINANCIAL STATEMENTS RESULTING FROM THE IMPACT OF RECENT ECONOMIC DEVELOPMENTS ON PENSION COSTS

PSC DOCKET NO. 09-182
SECOND DATA REQUEST TO DELMARVA FROM THE PSC STAFF

PSC 2-6. Referring to Delmarva's response to PSC 1-10, please provide an estimate of the 2009 pension expense that will be deferred if Delmarva's Petition is granted. Please provide separate estimates for the Delaware electric and gas divisions.

Response:

Please refer to the table below.

(1) Line No.	(2) Item	(3) DE Electric Pension Expense	(4) DE Gas Pension Expense	(5) Total
1	2007	($54,401)	($127,834)	$ (182,235)
2	2008	$43,214	($42,423)	$ 791
3	2009	$8,001,610	$3,927,053	$ 11,928,664
4				
5	Average	$2,663,474	$1,252,266	$ 3,915,740
6				
7	Proforma proposed	$8,001,610	$3,927,053	$ 11,928,664
8				
9	Adjustment to Company	($5,338,136)	($2,674,788)	$ (8,012,924)
10	(Average less Proforma proposed)			
11				
12	Rate Base for Deferred Amount	$5,338,136	$2,674,788	$ 8,012,924

IN THE MATTER OF THE PETITION OF DELMARVA POWER & LIGHT COMPANY FOR AUTHORIZATION TO DEFER CERTAIN CHANGES TO THE COMPANY'S FINANCIAL STATEMENTS RESULTING FROM THE IMPACT OF RECENT ECONOMIC DEVELOPMENTS ON PENSION COSTS

PSC DOCKET NO. 09-182
SECOND DATA REQUEST TO DELMARVA
FROM THE PSC STAFF
Revised Response

PSC 2-6. Referring to Delmarva's response to PSC 1-10, please provide an estimate of the 2009 pension expense that will be deferred if Delmarva's Petition is granted. Please provide separate estimates for the Delaware electric and gas divisions.

Revised Response:

Please refer to the table below.

(1) Line No.	(2) Item	(3) DE Electric Pension Expense	(4) DE Gas Pension Expense	(5) Total
1	2009 Pension Expense	$8,001,610	$3,927,053	$11,928,664
2				
3	Pension Income Currently in Rates	(970,783)	(177,042)	(1,147,825)
4				
5	Amount to be Deferred	8,972,393	4,104,095	13,076,489

COMMISSIONERS

DOUGLAS R. M. NAZARIAN
CHAIRMAN

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SUSANNE BROGAN
LAWRENCE BRENNER

STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

#15, 7/8/09 AM, ML#116479, A-1601

August 13, 2009

James W. Boone
Assistant General Counsel
Potomac Electric Power Company
701 Ninth Street, N.W., Suite 1132
Washington, DC 20068

Re: Application of Potomac Electric Power Company for Authorization to Establish a Regulatory Asset – Pension Costs

Dear Mr. Boone:

The Public Service Commission ("Commission") considered the above-referenced Application filed by the Potomac Electric Power Company ("Pepco" or "Company") at the Commission's Administrative Meeting on July 8, 2009 ("Meeting"). The Commission's Technical Staff ("Staff"), the Maryland Office of People's Counsel, and the Apartment and Office Building Association of Metropolitan Washington recommended that the Commission reject the Application. The Commission took the matter under advisement.

At the Meeting, the Commission questioned the Company's representative extensively as to the basis for the Company's request to establish a regulatory asset resulting from the impact of recent economic developments on pension cost. Pepco's primary argument in support of obtaining special regulatory treatment for the estimated pension costs is that the expenses for 2009 are far larger than in any year since 2005. Pepco asserts that if the Commission rejects its Application, the "Company will be deprived of the opportunity to earn its authorized rate of return and, will, in fact, be guaranteed to earn substantially less." Pepco then predicts that lesser earnings will adversely affect the "Company's credit ratings and financial position which, in turn, will ultimately adversely impact the Company's customers in the form of higher rates." If the regulatory asset is approved, Pepco asks that it be continued until "such time as recovery of these additional costs is provided for in Commission-approved base rates."

Pension costs are one of many operational expenses that are included in rates that Pepco's customers pay for electric distribution services. The recovery of pension costs historically is considered as one of several cost components in the ratemaking equation during a base rate case, and normally is considered in the context of the Company's overall costs, revenues and capital structure. Pepco is asking the Commission to approve special regulatory treatment of the 2009 pension costs outside of a base rate case in an effort to be guaranteed cost recovery for these 2009 pension costs. Although establishing a regulatory asset for these costs may not affect current rates, that decision may have an impact in a future rate case. The Commission respectfully declines to consider pension costs in a ratemaking vacuum, and finds that the Company has not articulated a compelling, principled basis for departing from long-standing ratemaking principles in this fashion.

Accordingly, the Commission rejects the Application.

By Direction of the Commission,

Terry J. Romine
Executive Secretary

cc: Paula Carmody, People's Counsel
Frann G. Francis

STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

#16, 7/8/09 AM, ML#116480, A-1602

August 13, 2009

James W. Boone
Assistant General Counsel
Delmarva Power & Light Company
701 Ninth Street, N.W., Suite 1132
Washington, DC 20068

Re: Application of Delmarva Power & Light Company for Authorization to Establish a Regulatory Asset – Pension Costs

Dear Mr. Boone:

The Public Service Commission ("Commission") considered the above-referenced Application filed by the Delmarva Power & Light Company ("Delmarva" or "Company") at the Commission's Administrative Meeting on July 8, 2009 ("Meeting"). The Commission's Technical Staff ("Staff") and the Maryland Office of People's Counsel recommended that the Commission reject the Application. The Commission took the matter under advisement.

At the Meeting, the Commission questioned the Company's representative extensively as to the basis for the Company's request to establish a regulatory asset resulting from the impact of recent economic developments on pension cost. The Company's primary argument in support of obtaining special regulatory treatment for the estimated pension costs is that the expenses for 2009 are far larger than in any year since 2005. Delmarva asserts that if the Commission rejects its Application, the "Company will be deprived of the opportunity to earn its authorized rate of return and, will, in fact, be guaranteed to earn substantially less." Delmarva then predicts that lesser earnings will adversely affect the "Company's credit ratings and financial position which, in turn, will ultimately adversely impact the Company's customers in the form of higher rates." If the regulatory asset is approved, Delmarva asks that it be continued until "such time as recovery of these additional costs is provided for in Commission-approved base rates."

WILLIAM DONALD SCHAEFER TOWER • 6 ST. PAUL STREET • BALTIMORE, MARYLAND 21202-6806
410-767-8000 • Toll Free: 1-800-492-0474 • FAX: 410-333-6495
MDRS: 1-800-735-2258 (TTY/Voice) • Website: www.psc.state.md.us

Delmarva currently has a base rate case pending before the Commission.[1] Under the current procedural schedule, the Commission is required to issue an order in the case by December 2, 2009.[2] The Company was unable to explain why the necessary recovery of the 2009 pension costs could not be considered in this pending base rate case, when the decision in the matter would be issued in 2009.

Pension costs are one of many operational expenses that are included in rates that Delmarva's customers pay for electric distribution services. The recovery of pension costs historically is considered as one of several cost components during a base rate case, and normally is considered in the context of the Company's overall costs, revenues and capital structure. Delmarva is asking the Commission to approve special regulatory treatment of the 2009 pension costs outside of a base rate case, even though Delmarva has a base rate pending. Although establishing a regulatory asset for these costs may not affect current rates, that decision may have an impact in the current (or a future) rate case. The Commission respectfully declines to consider pension costs in a ratemaking vacuum, and finds the Company has not articulated a compelling, principled basis for departing from long-standing ratemaking principles in this fashion.

Accordingly, the Commission rejects Delmarva's Application. The Commission suggests Delmarva pursue the recovery of these pension costs as part of its pending base rate case.

By Direction of the Commission,

Terry J. Romine
Executive Secretary

cc: Paula Carmody, People's Counsel

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[1] In the Matter of the Application of Delmarva Power And Light Company for an Increase in its Retail Rates for the Distribution of Electric Energy, Case No. 9192.

[2] *See* Order No. 82768 dated July 8, 2009, In the Matter of the Application of Delmarva Power and Light Company for an Increase in its Retail Rates for the Distribution of Electric Energy, Case No. 9192.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) September 4, 2007

WATERS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	01-14010	13-3668640
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

34 Maple Street
Milford, Massachusetts 01757
(Address of principal executive offices) (Zip Code)

(508) 478-2000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On September 4, 2007, the Board of Directors of Waters Technologies Corporation approved a proposal to make certain changes to the Corporation's qualified and non-qualified retirement plans. The changes include freezing pay credit accruals under the Waters Retirement Plan (the "Retirement Plan") effective as of December 31, 2007 and increasing the employer matching contributions to the Waters Employee Investment Plan and the Waters Employee Investment Plan for Puerto Rico (the "401(k) Plans") beginning January 1, 2008. In connection with these changes, the Corporation will give Retirement Plan participants who are active as of December 31, 2007 a one-time transition benefit equal to the pay credit percentage such participants will receive in 2007 less 3% (which represents the additional employer matching contribution which will be available to participants in the 401(k) Plans in 2008), multiplied by three (3). This one-time transition benefit will be contributed to employees' 401(k) Plan accounts in the first quarter of 2008. The associated estimated expense will be recorded by the Corporation in Q3 2007.

The changes will also freeze pay credit accruals to essentially all participants in the Waters Retirement Restoration Plan (the "Supplemental Retirement Plan") and will update the Waters 401(k) Restoration Plan (the "Supplemental 401(k) Plan") to reflect the increased employer matching contributions and one-time transition benefit under the 401(k) Plans described above. These changes to the Supplemental Retirement Plan and the Supplemental 401(k) Plan are intended to be effective January 1, 2008.

The Board of Directors of Waters Technologies Corporation has delegated its authority to implement these changes to the proper officers of the Corporation who will consider amendments effecting the foregoing changes later in 2007.

At its meeting in December, the Board will consider additional amendments to the Supplemental Retirement Plan and the Supplemental 401(k) Plan as may be necessary to satisfy the requirements of Internal Revenue Code Section 409A. Note, however, that any changes required to comply with Code Section 409A are unrelated to the proposed plan freeze and reorganization described above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: September 6, 2007

WATERS CORPORATION

By: /s/ John Ornell
Name: John Ornell
Title: Vice President, Finance and Administration and Chief Financial Officer

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Appendix C
Docket No. 09-414 et al.
Page 22 of 49

Pension-Plan Freezes Likely To Ramp Up Next Year

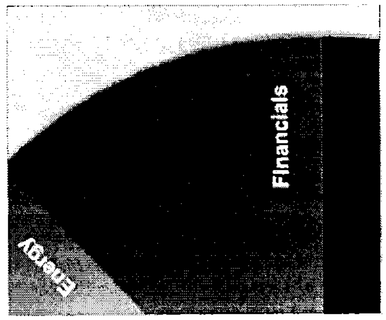
Date : 03/20/2009 @ 9:30AM

Source : Dow Jones News

Stock : AON Corp. (AOC)

Quote : ↑ 39.3 0.16 (0.41%) @ 11:36AM

<< Back Quote Chart Financials Trades Level2



Pension-Plan Freezes Likely To Ramp Up Next Year

By Lynn Cowan

Of DOW JONES NEWSWIRES

The number of U.S. companies freezing their pension plans this year will represent the tip of the iceberg compared with the volume in years to come, according to pension experts.

Although a range of well-known corporations already have frozen their pensions - including Motorola Inc. (MOT), newspaper publisher McClatchy Co. (MNI) and insurer Aon Corp. (AOC) - there hasn't been a deluge of such decisions, which keep earned benefits intact but effectively bar employees from accruing more in the future. Actuaries and pension consultants say that many companies are so focused on resolving their overall business issues in the current economic climate that they can't focus on major, permanent shifts in employee benefits right now, but likely will re-evaluate their commitment to pensions beginning next year.

"When you look back at the last bear market from 2000 to 2002, the bulk of the uptick in plan closures and freezes happened after 2002. Companies had to deal with their immediate business issues first before addressing longer-term benefit planning," said Michael Archer, chief actuary at Towers Perrin. "Right now, most companies are saying, yes, pension issues are a problem, but we're not looking to close or freeze plans right away. It's in 2010 and 2011 where we could see higher activity, and get a better handle on the long-term effects of the downturn."

Right now changes to another type of retirement savings tool, 401 (k) plans, are far more common, most likely because any halt in company contributions is seen as a temporary measure that can be relatively easy to reverse in the future. There are also likely more freezes to come for traditional pension plans, experts agree, though the level is unlikely to top the pace seen in 2006, when many corporations decided to change their employee benefits as the Pension Protection Act (PPA), with a host of new regulations, was being signed into law.

"If you look back to 2006 and 2007, when a lot more plans were frozen, there were a few things that were the big drivers," said Scott Jarboe, a principal in benefits consultant Mercer's retirement, risk and finance business. "First, there were new (accounting) rules that drove more transparent reporting of pension details on the balance sheet. The second and more important issue was that the PPA was being finalized, and in most cases, corporations anticipated an increase in plan costs and volatility. A third, less fundamental issue, was that so many plan sponsors were freezing their pensions, that it created an opportunity to do the same and remain competitive," said Jarboe "The activity at that point was not driven by financially distressed companies," he said. "The issue we're going to see today is that plan sponsors who may have reviewed their plan designs and intend to remain committed to defined benefit pensions may be in such financial stress that they may have no choice but to freeze versus other more dramatic cost cutting measures."

There's disagreement among pension experts as to whether this economic climate will sound the death knell for traditional defined benefit plans in the years to come. In companies with unionized workforces, it will be harder to dislodge plans even if management has the desire. And while the market downturn has clearly exposed the risks involved with keeping a pension plan during tough times, there are advantages to having one under better conditions.

Appendix C
Docket No. 09-414 et al.
Page 23 of 49

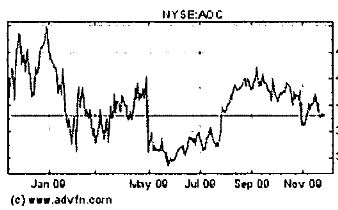
"Companies make two assumptions when they provide defined-benefit pensions: one, that contributions are tax-deductible; and secondly, companies count on the prospect that the market will subsidize the cost of the pension during good years," said Caitlin Long, head of the pensions solutions group at Morgan Stanley (MS).

Dan Yu, director of Eisner LLP's wealth management division, says he believes old-fashioned pensions were headed toward extinction even without the jolt they received from the market in 2008. "I would say, over the next decade, whether we are coming out of a recession or not, we'll see fewer. Defined benefit plans are dying dinosaurs. They won't exist in their present form after the next ten to 15 years," he said.

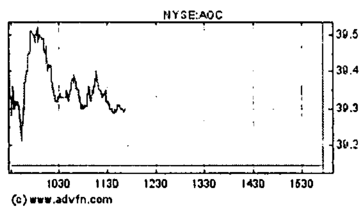
David Speier, a senior retirement consultant at Watson Wyatt Worldwide Inc. (WW), says he doesn't think the end is near, however. "I don't think that's a possibility. There are still private-sector companies out there that are committed to keeping defined benefit plans. There will be some that stick it out, even though we will clearly see more closures and plan freezes. But we won't be down to zero," he said.

-By Lynn Cowan, Dow Jones Newswires; 301-270-0323; lynn.cowan@dowjones.com

AON Corp. Historical Chart



AON Corp. Intraday Chart



Period
1 year
Line

Pension Publications

Companies That Have Changed Their Defined Benefit Pension Plans

Below is a list of employers that have announced significant changes to their defined benefit pension plans since December 2005. Changes include plan terminations, plan freezes for new and/or current employees, and changes to the formula by which pension benefits are calculated. For specifics, click on the employer's name to see the company's press release, SEC filing or news story announcing the change.

(Note: this is not a comprehensive list. These are only the changes that we are aware of, based on corporate press releases, news reports and other sources. This list does not include changes that have been made through the collective-bargaining process.)

Read our fact sheet on pension freezes. Visit our Reports page for studies on pension freezes and other topics. We have a similar list of companies that have reduced or eliminated their matching contributions to employees' 401(k) plans.

Announcement Date	Employer	Effective Date
03/23/2009	Advance Publications	05/15/2009
03/02/2009	Talbots, Inc.	05/01/2009
02/27/2009	B&C Trucking Company	unknown
02/25/2009	Regions Financial Corporation	04/16/2009
02/19/2009	E.W. Scripps Company	unknown
02/16/2009	Sparton Corporation	04/01/2009
02/13/2009	Atlanta Convention and Visitors Bureau	01/01/2009
02/05/2009	Aon Corporation	04/01/2009
02/05/2009	Cincinnati Bell	03/28/2009
02/05/2009	McClatchy Company	03/31/2009
01/15/2009	Saks, Inc.	01/30/2009
12/23/2008	Albany International Corporation	02/28/2009
12/23/2008	Seattle Times	02/06/2009

12/17/2008	Motorola	03/01/2009
12/17/2008	GenCorp Inc.	02/01/2009
11/21/2008	Random House, Inc.	12/31/2008
11/11/2008	Evening Post Publishing	01/10/2009
11/10/2008	R.H. Donnelly Corporation	01/01/2009
10/22/2008	New York Times Company	01/01/2009
09/24/2008	Xerium Technologies, Inc.	12/31/2008
09/15/2008	Equifax	01/01/2009
07/08/2008	YRC Worldwide Inc.	07/01/2008
06/24/2008	Boeing	01/01/2009
06/11/2008	Gannett	08/01/2008
04/25/2008	Standard Register	unknown
04/16/2008	Beneficial Mutual Bancorp Inc.	06/30/2008
03/31/2008	3M	01/01/2009
02/12/2008	Bryn Mawr Bank Corporation	03/31/2008
02/2008	Northrop Grumman	07/01/2008
12/05/2007	Neiman Marcus, Inc.	12/31/2007
11/16/2007	Milacron Inc. (see p. 22)	12/31/2007
11/06/2007	Foamex International Inc.	01/01/2008
10/02/2007	Haynes International, Inc.	01/01/2008
09/24/2007	State Street Corp.	01/01/2008
09/11/2007	Andersen Corp.	01/01/2008
09/07/2007	Delphi Corporation	TBD
09/04/2007	Waters Corporation	12/31/2007
08/09/2007	Center Bancorp, Inc.	09/30/2007
07/17/2007	Dow Chemical Company	01/01/2008
05/01/2007	ArvinMeritor, Inc.	01/01/2008
04/24/2007	NASDAQ	05/01/2007
04/12/2007	Dun & Bradstreet Corp.	06/30/2007
03/29/2007	Fidelity Investments	06/01/2007
03/20/2007	Dana Corporation	07/01/2007

02/28/2007	Tecumseh Products Co.	05/01/2007
02/28/2007	Goodyear Tire & Rubber Company	01/01/2008
02/27/2007	FedEx	06/01/2008
02/23/2007	SureWest Communications	04/10/2007
02/20/2007	HP (Hewlett-Packard)	01/01/2008
02/16/2007	SunTrust Banks Inc.	01/01/2008
01/11/2007	Ryder System, Inc.	01/01/2008
11/30/2006	Shenandoah Telecommunications	01/31/2007
11/29/2006	Kershaw County Medical Center	01/01/2007
11/15/2006	North Pittsburgh Telephone Co.	12/31/2006
11/08/2006	Whirlpool Corporation	01/01/2007
11/08/2006	Vought Aircraft Industries, Inc.	12/31/2007
11/03/2006	Citigroup	01/01/2008
11/02/2006	Belo Corp.	03/31/2007
11/01/2006	Aon Corporation	01/01/2007
11/01/2006	Met-Pro Corporation	12/31/2006
11/31/2006	Lenox Group Inc.	01/01/2007
10/30/2006	MeadWestvaco Corporation	01/01/2007
10/30/2006	Michelin	01/01/2017
10/26/2006	Tredegar Corporation	12/31/2007
10/19/2006	Journal Register Company	01/01/2007
10/18/2006	LSB Corporation	12/31/2006
10/17/2006	Con-Way Inc.	12/31/2006
10/11/2006	Remington Arms Company, Inc.	01/01/2008
10/10/2006	The Hershey Company	01/01/2007
09/27/2006	NCR Corporation	01/01/2007
09/20/2006	Calgon Carbon Corporation	12/31/2006
09/07/2006	Alliant Techsystems	01/01/2007
08/31/2006	Flushing Financial Corporation	09/30/2006
08/28/2006	DuPont	01/01/2008
08/23/2006	Tenneco Inc.	01/01/2007

08/08/2006	Blount International, Inc.	01/01/2007
08/01/2006	Harry & David Operations Corp.	07/01/2007
07/21/2006	Reynolds and Reynolds Company	10/01/2006
06/29/2006	The Stride Rite Corporation	12/31/2006
06/27/2006	Nortel	01/01/2008
06/23/2006	G&K Services, Inc.	01/01/2007
06/15/2006	Bandag, Incorporated	12/31/2006
05/15/2006	Media General, Inc.	12/31/2006
05/01/2006	Lydall, Inc.	06/30/2006
04/27/2006	A.T. Cross Company	05/20/2006
03/22/2006	Unisys Corporation	12/31/2006
03/20/2006	Lincoln Electric Holdings, Inc.	01/01/2006
03/07/2006	General Motors Corp.	01/01/2007
02/23/2006	Wellpoint, Inc.	01/01/2006
02/22/2006	Coca-Cola Bottling Co. Consolidated	06/30/2006
02/20/2006	Stepan Company	07/01/2006
02/15/2006	Ferro Corporation	04/01/2006
01/26/2006	Harleysville Group Inc.	04/01/2006
01/24/2006	Lexmark International, Inc.	05/01/2006
01/19/2006	Russell Corporation	04/01/2006
01/16/2006	Alcoa	03/01/2006
01/13/2006	Armstrong World Industries, Inc.	03/01/2006
01/05/2006	IBM	01/01/2008
12/05/2005	Verizon Communications Inc.	07/01/2006

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United States Government Accountability Office

GAO

Report to Congressional Addressees

July 2008

DEFINED BENEFIT PENSIONS

Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges

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GAO-08-817

July 2008

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Highlights

Highlights of GAO-08-817, a report to congressional addressees

DEFINED BENEFIT PENSIONS

Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges

Why GAO Did This Study

Private defined benefit (DB) pension plans are an important source of retirement income for millions of Americans. However, from 1990 to 2006, plan sponsors have voluntarily terminated over 61,000 sufficiently funded single-employer DB plans. An event preceding at least some of these terminations was a so-called plan "freeze"—an amendment to the plan to limit some or all future pension accruals for some or all plan participants. Available information that the government collects about frozen plans is limited in scope and may not be recent. GAO conducted a stratified probability sample survey of 471 single-employer DB plan sponsors out of a population of 7,804 (with 100 or more total plan participants) to gather more timely and detailed information about frozen plans.

We have prepared this report under the Comptroller General's authority as part of our ongoing reassessment of risks associated with the Pension Benefit Guaranty Corporation's (PBGC) single-employer pension insurance program, which, in 2003, we placed on our high-risk list of programs that need broad-based transformations and warrant the attention of Congress and the executive branch. Frozen DB plans have possible implications for PBGC's long-term financial position. This report examines (1) the extent to which DB pension plans are frozen and the characteristics of frozen plans; and (2) the implications of these freezes for plan participants, plan sponsors, and the PBGC.

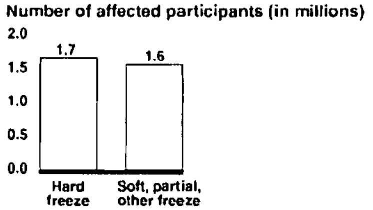
To view the full product, including the scope and methodology, click on GAO-08-817. To view the survey results click on GAO 08-818SP. For more information, contact Barbara Bovbjerg, at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

Frozen plans are fairly common today, with about half of all sponsors in our study population having one or more frozen DB plans. Overall, about 3.3 million active participants in our study population, who represent about 21 percent of all active participants in the single-employer DB system, are affected by a freeze. The most common type of freeze is a hard freeze—a freeze in which all future benefit accruals cease—which accounts for 23 percent of plans in our study population; however, an additional 22 percent of plans are frozen in some other way. Larger sponsors (i.e. those with 10,000 or more total participants) are significantly less likely than smaller sponsors to have implemented a hard freeze, with only 9 percent of plans under a hard freeze among larger sponsors compared with 25 percent of plans under a hard freeze among smaller sponsors. The vast majority of sponsors with frozen plans in our study population, 83 percent, have alternative retirement savings arrangements for these affected participants, but 11 percent of sponsors do not. (An additional 6 percent of sponsors froze plans under circumstances that preclude a replacement plan.) Plan sponsors cited many reasons for freezing their largest plans but most often noted two: the impact of annual contributions on their firm's cash flows and the unpredictability of plan funding. Sponsors of frozen plans generally expressed a degree of uncertainty about the anticipated outcome for their largest plan, but sponsors whose largest plan was hard frozen were significantly more likely to anticipate plan termination as the likely plan outcome.

The implications of a freeze vary for sponsors, participants, and PBGC. For plan sponsors, while hard freezes appear to indicate an increased likelihood of plan termination, a rise in plan terminations has yet to materialize. For participants, a freeze generally implies a reduction in anticipated future retirement benefits, though this may be somewhat or entirely offset by increases in other benefits or a replacement retirement-savings plan. However, because the replacement plans offered to affected participants most frequently are defined contribution, the investment risk and responsibility for saving are shifted to employees. Finally, plan freezes may potentially improve PBGC's net financial position, but the degree to which it is accompanied by sponsor efforts to improve plan funding is unclear. In any event, the shrinking of the single-employer pension insurance program plan base seems likely to continue.

Estimated Number of Active Participants Affected by Sponsors' Largest Plan Freeze, by Freeze Type



Source GAO analysis of survey of DB pension plan sponsors regarding frozen plans

Frozen Plans Affect about One-Fifth of Active DB Plan Participants

Overall, an estimated 3.3 million active participants[6] in our study population—or 21 percent of all active participants in the private, single-employer DB system—are affected by reported freezes. (See app. I, slide 9 and slide 10.) Active participants are employees that are or may become eligible to accrue or receive additional benefits under a plan; if all participants in the DB system (that is, active participants, retirees, and separated vested participants) are considered, the proportion represented by active participants who are affected by plan freezes falls to 10 percent.[7] (See app. I, Slide 9.) We considered only those participants who are currently accruing benefits (that is, active participants) at the time of freeze implementation to be affected by a freeze. The above calculations, therefore, do not include sponsors whose largest frozen plans are under a new-employee-only soft freeze, where the plan is closed to new entrants and benefit accruals for active participants remain unchanged. The extent to which active participants are affected by a freeze depends on the type of freeze in place. Under hard freezes, future benefit accruals cease for active participants. In contrast, soft freezes may reduce future benefit accruals for some or all active participants. Soft freezes are distinct from hard freezes in that the restrictions on participants' future benefit accruals are less comprehensive than the total cessation of future accruals under hard freezes.[8]

Our survey shows that about half the sponsors in the study population have one or more frozen plans. (See app. I, slide 11.) Overall, about

[6]All estimates based on our sample are subject to sampling error. For example the 95 percent confidence interval of the total participant estimate ranges from 2.25 million to 4.34 million participants. Unless otherwise noted, all percentage estimates based on this survey have 95 percent confidence intervals of within +/- 11 percentage points of the estimate itself. Of the 3.3 million estimated participants affected by a freeze, 1.7 million are affected by a hard freeze, and 1.8 million are affected by a soft, partial, or other freeze. The 95 percent confidence interval for participants affected by hard freeze is from 1.1 million to 2.3 million. The 95 percent confidence interval for participants affected by soft, partial, or other freezes is from 0.7 million to 2.5 million. See appendix II for additional information on sampling error of estimates.

[7]Active participants may continue to accrue benefits because they are currently employed by the sponsoring firm. Retirees are no longer employed by the firm and are collecting their retirement benefits. Separated vested participants are no longer employed by the sponsoring firm and no longer accrue benefits, but they are not yet collecting their retirement benefits.

[8]See appendix I, slide 5 for general freeze type definitions. Exact definitions used in the survey may be found in the special product supplement. See GAO, *Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans*, GAO-08-818SP (Washington, D.C.: July 21, 2008).

51 percent of plans in the study population were reported as closed to new entrants, the basic requirement of a plan freeze. Nearly half of plans with a reported freeze, or 23 percent of all plans in the study population, were under a hard freeze. (See app. I, slide 12.)[9] In addition, 12 percent reported some type of soft freeze. About 6 percent reported a partial plan freeze, while 4 percent reported an "other" freeze, which include situations where plan participants are separated into plan tiers,[10] or freezes brought on by bankruptcy, plant closure, or plan merger.

The survey results suggest that two factors may influence the likelihood that sponsors will implement a hard freeze: sponsor size and the extent to which a sponsor's plans are subject to collective bargaining (CB) agreements. Larger sponsors, those with 10,000 or more total participants, are significantly less likely than smaller sponsors to have implemented a hard freeze, with only 9.4 percent of plans under a hard freeze among larger sponsors compared with 25.4 percent of plans under a hard freeze among smaller sponsors. (See app. I, slide 13.) Similarly, firms with some or all plans subject to CB are significantly less likely to implement hard freezes than sponsors with no plans subject to CB.[11] (See app. I, Slide 14.) However, these two factors may be related, as larger sponsors in our

[9]Closed and unclassified plans are only included for this analysis (see app. I, slide 12). In other analyses, only those plans reporting a specific freeze type will be included in calculations of frozen plans. Of the 51 percent of all plans reported as closed to new entrants, 44 percent reported a specific freeze type. Another roughly 9 percent of plans were closed to new entrants but were not classified by their sponsors as being frozen. Those plans defining a freeze plus those that reported the plan as closed to new hires, but not defined as frozen, may not sum to the total number of closed plans. This occurs because, in certain instances, a partial freeze may not be closed to all new entrants. For example, a subset of new entrants may be part of the group unaffected by the partial freeze.

[10]An example of a tier might be if an employer were to offer certain participants the option to freeze certain accruals in one DB plan as a condition of participation and accruals in another, alternative plan (either DB or DC).

[11]The statistical significance of this finding applies only to hard frozen plans. Sponsors with some or all plans that were subject to CB did not freeze their plans overall at a statistically different rate from the general population of sponsors. Estimated percentages for sponsors with no CB or some CB have 95 percent confidence intervals of within +/- 11 percentage points of the estimates themselves. For sponsors with all plans subject to CB, the confidence intervals are within +/- 15 percentage points of the estimates themselves.

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Background: What Is a Plan Freeze?

- A plan freeze is a plan amendment that closes the plan to new entrants and may limit future benefit accruals for some or all active plan participants
- General types include:
  - -Hard Freeze – the plan is closed to new entrants and participants no longer accrue additional benefits
  - -Soft Freeze – at a minimum the plan is closed to new entrants. The plan's prospective benefit formula may or may not be changed in such a way as to limit future benefit accruals for participants.
  - -Partial Freeze – the plan is closed to new entrants and, for only a subset of active participants, the plan's prospective benefit formula is changed to limit or cease future benefit accruals.

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Background: Freeze Data

- Most reports of pre-2003 freezes were based on:
  - limited data obtained from restricted/proprietary client bases of consulting firms and
  - survey questions on freezes that were often indirect or could be misconstrued
- The Pension Benefit Guaranty Corporation (PBGC) began analyzing generalizable information on single-employer, "hard frozen" plans in 2005 (using plan year 2003 data)
- Most recent PBGC data shows that:
  - 14 percent of plans were hard frozen as of 2005
  - There has been a nearly 50 percent increase in frozen plans since 2003
  - Hard freezes are generally more prevalent among smaller plans

6

Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans (GAO-08-818SP, July 2008), an E-supplement to GAO-08-817

Read the Full Report: Defined Benefit Pensions: Information from GAO Survey on Frozen Defined Benefit Plans (GAO-08-817)
Background Information

Instructions for Viewing This Survey

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Background

Over the last five years, a number of large, high profile employers have announced their intention to freeze-- an amendment to the plan to limit some or all future pension accruals for some or all plan participants-- their larger defined benefit (DB) plans that represent a significant portion of plan liabilities and plan participants in the private DB system. To better understand the current plan freeze environment and its significance to the DB system going forward, GAO conducted a study of sponsors of tax-qualified, single-employer, defined benefit (DB) plans that had 100 or more total participants. Specifically, we surveyed a stratified probability sample of plan sponsors about their experiences with DB plans and plan freezes. We obtained a weighted response rate of 78 percent. A more detailed discussion of our scope and methodology is contained in our report: Defined Benefit Pensions: Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges, GAO-08-817 (Washington, D.C.: July 21, 2008). We administered the survey from November, 2007 through May 2008 in accordance with generally accepted government auditing standards.

Instructions for Viewing this Survey

Special Viewing Instructions

These tables are a product of combining the results of two questionnaires-- the first 17 questions and last question from a web questionnaire to large plan sponsors (with 50,000 or more participants) and a shorter mail questionnaire with the same 18 questions to smaller plan sponsors (100 to less than 50,000 participants). This document presents the results using the web survey format, including the navigation and introduction material from the web survey.

How to View The Surveys

Click on the Table of Contents link located in the lower right of this screen. To read to the bottom of the screen, you may need to use your scroll bar on the right side of this screen.

The first screen in the survey is an introduction and general information that was sent to and viewed by recipients of the survey. There are no survey results to view on this screen. This screen is for information only and you may by-pass it by clicking on Next located at the bottom of the screen in the lower right.

The survey may have links to allow respondents to bypass inapplicable questions (skip patterns). While these were active links during the data collection period, they have now been disabled.

When a respondent wrote a narrative response to a question, we sometimes present the percent of respondents making a comment.

How to View the Responses for Each Question

To view the responses to each question, click on the question number (Links to survey questions will look like this: 1., etc.).

After viewing the responses to each question, click on the "x" in the upper right corner of your screen to close that window and return to the questionnaire.

How to Return to a Page That You Previously Visited

To return to the last screen you viewed, click the Previous button on the lower right corner of the screen.

Click the Next button to advance to the next screen.

How to Make the Font Larger on Your Screen

You can make the font larger by changing your browser setting. For example, on Internet Explorer you can change the font size by going to View and selecting Text Size.

Contact Information?

If you have questions concerning these data, please contact Barbara Bovbjerg at (202) 512-5491 or by e-mail at Barbara Bovbjerg.

(130851)

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Deloitte.

Consulting

2008 Survey of Economic Assumptions

Used for SFAS No. 87, 106, 132, 158 and Related Measurements

Audit . Tax . Consulting . Financial Advisory.

Contents

Introduction

Statement of Financial Accounting Standards No. 87 (Statement 87) requires the sponsor of a defined benefit pension plan measure the plan's obligations and annual expense using assumptions that (1) individually reflect best estimates (paragraph 43) and (2) are "consistent [with each other] to the extent that each reflects expectations of the same future economic conditions" (paragraph 46). In general, the benefit obligation is most sensitive to the discount rate assumption; for example, a relatively small change in the discount rate (of say, 25 basis points) could result in a change in the liabilities of perhaps as much as 5 percent.

The Financial Accounting Standards Board (FASB) describes the methodology to select the discount rate (Statement 87 paragraph 44). The discount rate should reflect the rates at which the pension benefits could be effectively settled. Further guidance (paragraph 44A1) provides that the discount rate should reflect the yield of a portfolio of high-quality fixed-income instruments whose coupons and maturities match projected benefit payments However, the literature allows the use of computational shortcuts (cf. paragraph 10 of Statement 87 and paragraph 15 of Statement 106), whose results can be expected to produce results that are not materially different than a more detailed analysis. Because the duration of a plan's benefit obligation is affected by the plan design and by the demographic characteristics of the plan population (e.g., average age, average service, proportion of retirees), one might generally expect that plans with similar plan designs and demographics would use similar discount rates. Conversely, one might expect that plans with dissimilar plan designs or demographics may not use similar discount rates.

Of course, there may be circumstances -- such as a relatively flat yield curve -- in which plans with dissimilar plan designs or demographics would be able to support similar discount rates. In summary, the process to select the discount rate considers the facts and circumstances specific to the plan as well as the prevailing high-quality corporate bond yield rates as of the measurement date.

Statement of Financial Accounting Standards No. 106 (Statement 106) contains similar requirements for the selection of assumptions for Other Postretirement Employee Benefit plans (paragraphs 29 and 42). Similar guidance is also provided for the selection of discount rate (paragraph 31 and 31 A[1]).

Companies also disclose other economic assumptions: the expected rate of return on plan assets, the expected rate of salary increases, and the expected increase in health care costs.

Although the selection of assumptions should be specific to the individual plan, plan sponsors, as well as regulators, often compare their discount rate and other assumptions to those of other plan sponsors.

In this survey, Deloitte's Human Capital service area has compiled information disclosed by many of the Fortune 500 companies in their most recent annual reports. We have focused on 233 companies that sponsor pension and/or other postretirement benefits and who have calendar fiscal years. Of these, 232 companies who have disclosed defined benefit plans; 206 companies disclosed Other Postretirement Employee Benefit plans (OPEB, subject to Statement 106), including one company that disclosed only OPEB benefits. This disclosure information also included assumptions used as of the prior year, enabling us to compare changes in the assumptions from one year to the next.

[1] Statement of Financial Accounting Standards No. 158 (Statement 158) amended Statement 87 and 106. These amendments include the addition of paragraph 44A to Statement 87 and 31A to Statement 106; this guidance previously was located in the Basis for Conclusions of Statement 106. Statement 158 also provided that the unfunded benefit obligation be recognized on the balance sheet for fiscal years ending after December 15, 2006 (delayed to June 15, 2007 for non-publicly held entities) and that the measurement date be aligned with fiscal year end for fiscal years ending after December 15, 2008.

Prevailing Interest Rates

With respect to the guidance regarding the selection of the discount rate, the SEC staff has indicated that it believes the term "high-quality" refers to those fixed-income instruments with at least an Aa3 rating from Moody's (or its equivalent from another rating service)[7]. Exhibit 1a shows the yield curve on the Bloomberg Composite Aa3 bonds at both December 31, 2007, and December 31, 2006. Exhibit 1b shows the Citigroup Pension Discount Curve at the same dates.

Taken together, these Exhibits indicate that the yield curve has inverted more in the early years as compared to last year. Yields after around the 5 year maturity point have increased across the rest of the curve.

Exhibit 1a. Bloomberg Composite Aa3 Spot Yields

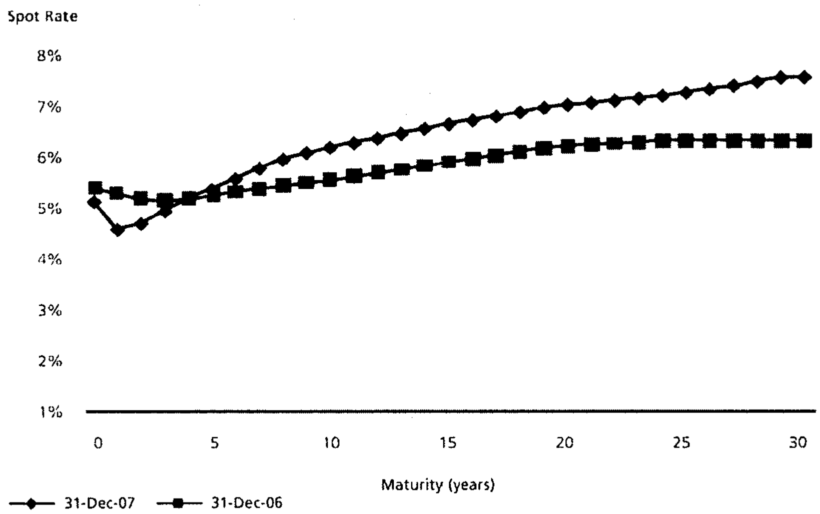
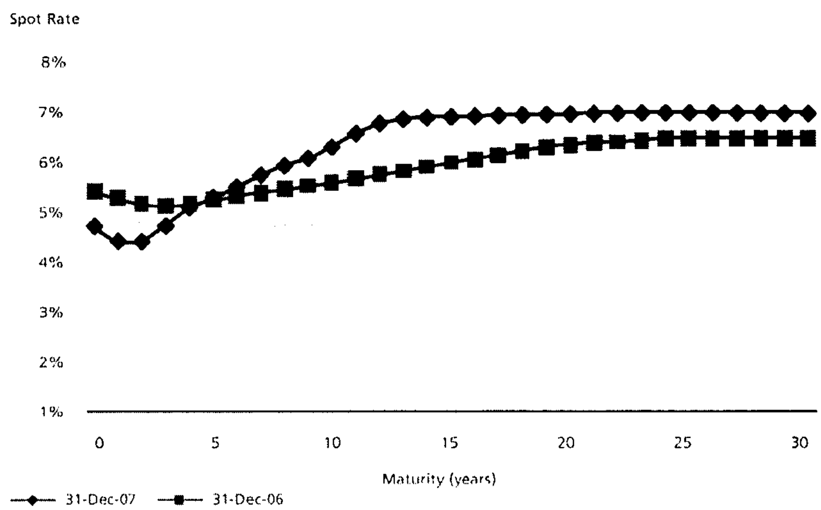
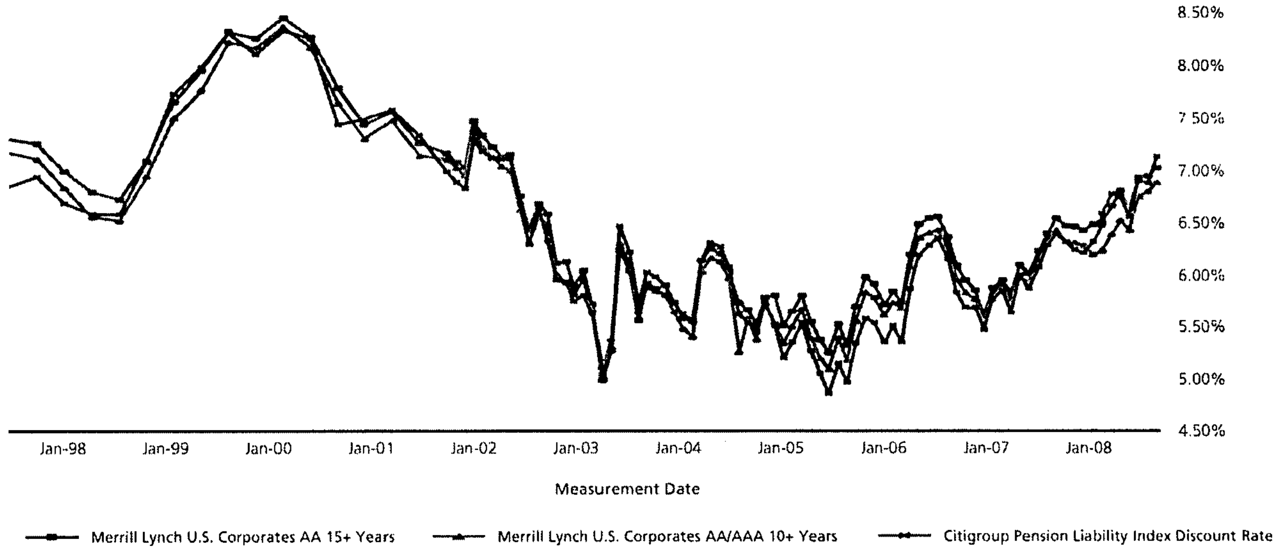


Exhibit 1b. Citigroup Pension Dicount Curve



[7] Cf. EITF Topic D-36.

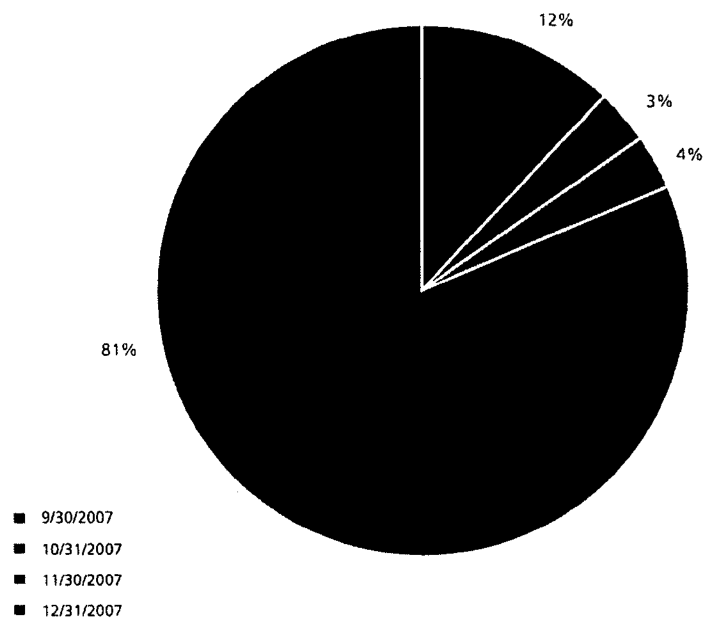
Exhibit 2. Corporate Bond Month-End Index Rates



Over the past several years, the rates available on corporate bonds (as suggested by published indices such as Merrill Lynch U.S. Corporates Aa 15+ years, Merrill Lynch U.S. Corporates Aa/Aaa 10+ years, as well as Citigroup's (formerly Salomon's) Pension Liability Index) have varied considerably. The historic yields over the past several years for all of these indices are plotted in Exhibit 2.

This exhibit indicates that these indices finished the year with yields about 50 basis points more than the end of 2006. Furthermore, Exhibit 2 indicates that rates are currently (as of the end of June 2008) up about 35 to 50 basis points since the end of 2007.

Exhibit 3. Measurement Dates



Measurement Date

As shown in Exhibit 3, approximately 19 percent of the companies surveyed used a measurement date prior to December 31, with September 30 being the most common of those. Currently, the measurement date can precede the disclosure date by up to three months (see paragraph 52 of Statement 87; paragraph 72 of Statement 106), although, for fiscal years ending after December 15, 2008, the fiscal year end will have to be used. For purposes of the remainder of this survey, we have only included companies with a December 31 measurement and disclosure date.

Discount Rate

Exhibit 4 summarizes the discount rate for Statement 87 purposes disclosed as of December 31, 2007, and December 31, 2006. The average discount rate disclosed at December 31, 2007, was 6.20 percent, about 41 basis points above that disclosed at the end of 2006. Eighty-eight percent of the companies surveyed were between 6.00 percent and 6.50 percent.

Most of the companies surveyed disclosed a discount rate within a narrow range at both December 2007 and December 2006; in each year, 13 percent or fewer disclosed at a discount rate that was more than 25 basis points from the average.

The FASB and SEC staffs have indicated that they expect discount rates to move with general economic trends[3]. Exhibit 5 presents the change from December 31, 2006, to December 31, 2007. The SEC staff has further indicated that they expect any company that relies on an index to support its selection of the discount rate to provide evidence that such index is appropriate for the particular plan.

If the registrant benchmarks its assumption off of published long- term bond indices, it is expected to explain how it determined that the timing and amount of cash outflows related to the bonds included in the indices matches its estimated defined benefit payments. If there are differences between the terms of the bonds and the terms of the defined benefit obligations (for example if the bonds are callable), the registrant is expected to explain how it adjusts for the difference. Increases to the benchmark rates should not be made unless the registrant has detailed analysis that supports the specific amount of the increase.[4]

Exhibit 4. Discount Rates for Disclosures

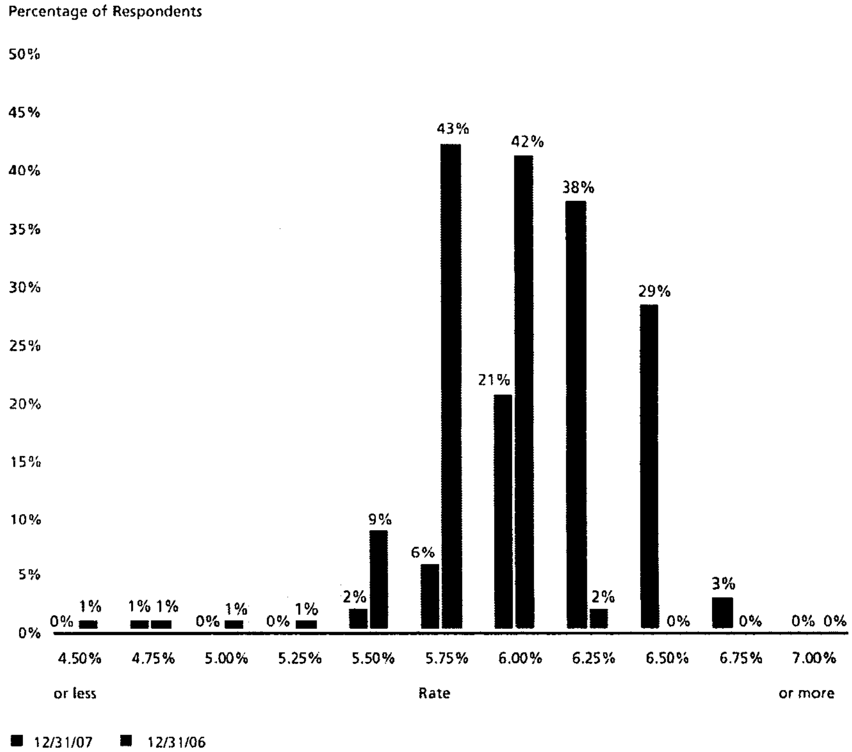
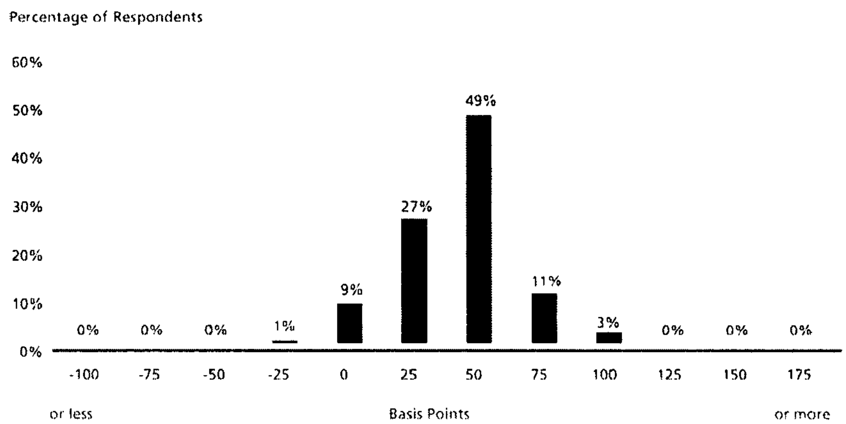


Exhibit 5. Change in Discount Rate

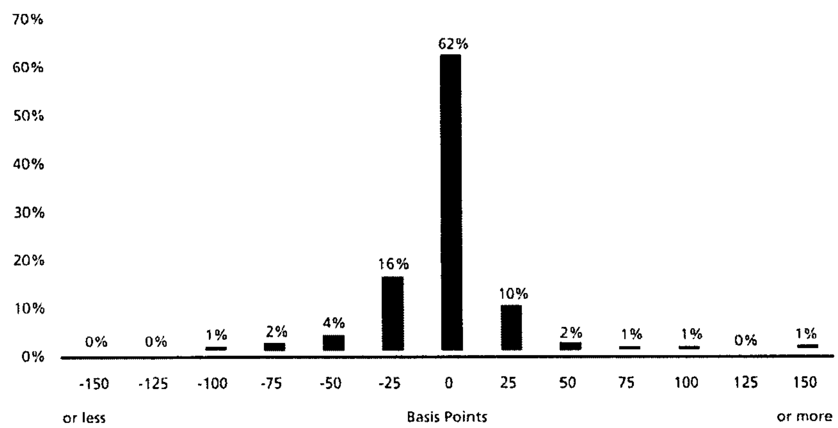


[3] Cf. EITF Topic D-36.
[4] Cf. Section II H 1 at www.sec.gov/divisions/corpfin/acctdis030405.htm

On average, discount rates increased by about 41 basis points from December 31, 2006, to December 31, 2007. While approximately 9 percent of the companies in our survey did not change the discount rate, 49 percent of the companies increased it by 50 basis points.

We also compared the discount rate disclosed for Statement 106 purposes with that disclosed for measuring pension liabilities in accordance with Statement 87. As shown in Exhibit 6, 62 percent of the companies surveyed disclosed the same discount rate for both measurements. Fifteen percent of companies disclosed a higher discount rate for measuring postretirement benefits than for measuring pension benefits.

Exhibit 6. Difference in Discount Rate for SFAS 106 Purposes and SFAS 87 Purposes

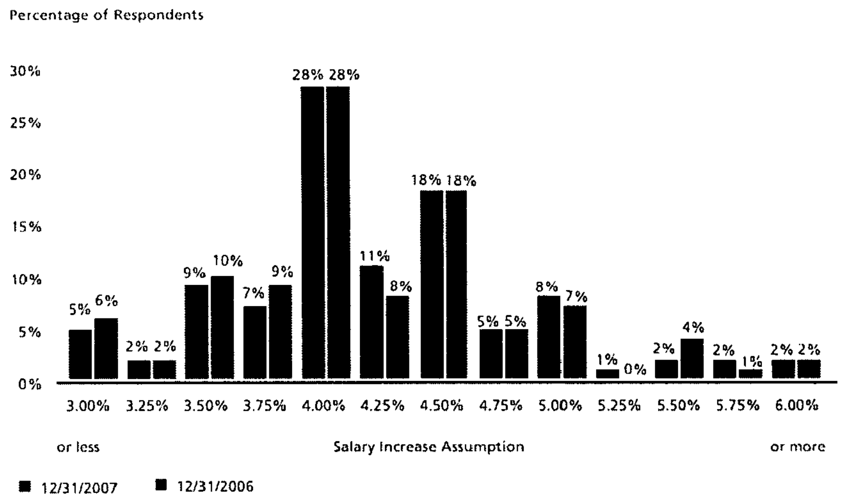


Salary Increase Assumption

Plans that provide pay-related benefits are required to disclose the salary increase assumption underlying the calculations. Almost all of the companies in the survey disclosed a salary increase assumption. Statement 87 provides relatively little guidance in the selection of the salary increase assumption other than to mention that it should reflect "future changes attributed to general price levels, productivity, seniority, promotion, and other factors" (paragraph 46).

There is a fairly wide range of assumed salary increase as summarized in Exhibit 7. The average salary increase assumption disclosed as of December 31, 2007, was roughly 4.23 percent, a decrease of 6 basis points from 2006. Seventy percent of the companies surveyed used an assumption between 4.0 and 5.0 percent. Twelve percent were 100 or more basis points away from the average. The rates disclosed at December 31, 2006, show a similar pattern of dispersion around the average.

Exhibit 7. Salary Increase Disclosures



This range of expected salary increase assumption is also seen in the spread between the discount rate and the salary increase assumptions. Exhibit 8 shows this difference as of December 31, 2007, and December 31, 2006. While the average spread increased by roughly 37 basis points, the companies surveyed are dispersed over the range.

Exhibit 9 shows the change in the salary increase assumption from December 31, 2006, to December 31, 2007.

Between these two measurement dates, 79 percent of the companies surveyed reported no change in the salary increase assumption, similar to last year. Roughly 11 percent increased this assumption by 25 or 50 basis points.

Exhibit 8. Spread Between Discount Rate and Salary Increase Assumption

Percentage of Respondents

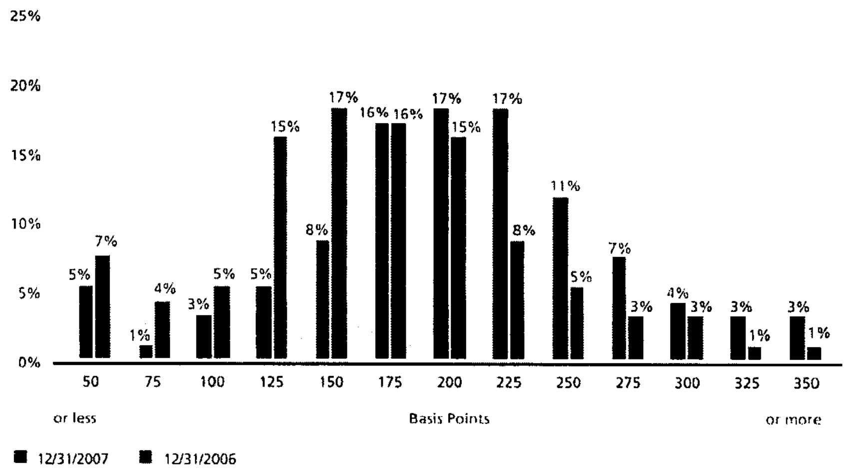
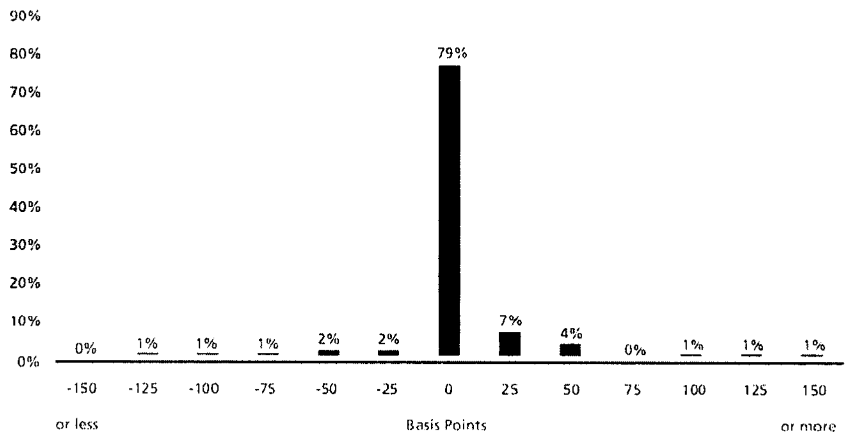


Exhibit 9. Change in Salary Increase Assumption

Percentage of Respondents



Expected Return Assumption

Paragraph 45 of Statement 87 specifies that the Expected Long-Term Rate of Return assumption (Expected Return) should "reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits...." Furthermore, Statement No. 132R requires that plan sponsors provide a narrative description of both a plan's actual investment policy and the basis used to determine the overall expected long-term rate of return. As a result, companies with different asset allocations or different investment philosophies may have different long-term return assumptions.

In this context, we understand that some companies engage in a process (with varying degrees of rigor) for developing the Expected Return assumption.

One method for determining the Expected Return assumption is based on a building block approach. In our experience, the building block approach is used by many in the investment management industry to develop capital market expectations. This approach begins with the development of a long-term level of expected inflation. The level of inflation becomes the "building block" for the development of expected returns for each of the various asset classes (being the difference between real and nominal returns).

Next, an expected return on cash ("risk free" asset) is developed, typically using 90 day Treasury bills as a proxy. Risk premiums above cash are developed as the primary determinant of expected return for the various asset classes (e.g., US equities, US core fixed income, etc.) included in the portfolio. Risk premiums should reflect the risk of each asset class (the riskier the asset class, the larger the risk premium).

Finally, under the building block approach, the expected return of the total portfolio is calculated using the asset class returns developed and taking into account the overall strategic asset allocation of the portfolio. Some companies engaging in active investment management may choose to incorporate a return premium to reflect their belief that active management will provide an additional incremental return. It is important to note that management fees for actively managed investments are typically higher than passively managed products, and that the premium assigned for active management should be net of additional investment management fees.

Another approach to developing the long-term rate of return assumption is to develop a consensus forecast, whereby the company gathers long-term capital market forecasts from multiple, reputable organizations in the financial services industry (such as investment consultants, investment managers, or other financial institutions). Typically these capital market forecasts include long-term expected return assumptions for various asset classes. The company can calculate the expected return of the portfolio by "averaging" the expected return forecasts gathered by asset class, and using these inputs to calculate the total expected return on the overall portfolio.

Alternatively, some companies may choose to determine the projected range of returns for the overall portfolio by using stochastic simulation. Stochastic simulation is a tool that allows the company to forecast the overall portfolio return under various potential economic environments. The inputs to the model typically include mean-variance assumptions for each asset class (which can be generated by using the building block methodology or consensus forecast), as well as assumptions relating to future levels of inflation and interest rates. The results of the stochastic simulation will provide the company with the range of potential returns for the portfolio over a long-term horizon (although it is worth noting that the output of the analysis is largely predicated upon the assumptions).

Exhibit 10 shows the range of the Expected Return used in calculating pension expense for 2007 and 2006. While Statement 106 has a similar requirement (paragraph 32), most OPEB plans are unfunded; this assumption is not used in the case of an unfunded plan.

The average Expected Return was 8.13 percent for 2007 (roughly 3 basis points lower than was used for 2006), with 79 percent of the companies surveyed using between 8.00 and 9.00 percent. Twenty one percent reported an Expected Return of less than 8 percent; no companies reported an Expected Return of 9.25 percent or more. As compared to 2006, approximately 9 percent of companies surveyed lowered this assumption in 2007. As shown in Exhibit 11, seven percent of the companies reduced this assumption 25 basis points and another 2 percent reduced it 50 basis points. Three percent of the companies surveyed increased this assumption.

Exhibit 10. Expected Long-Term Rate of Return Assumption

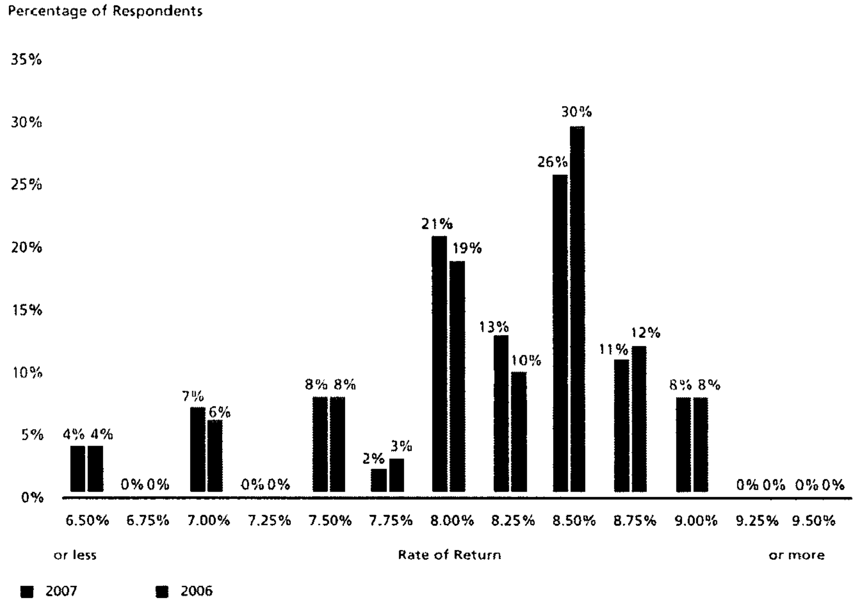
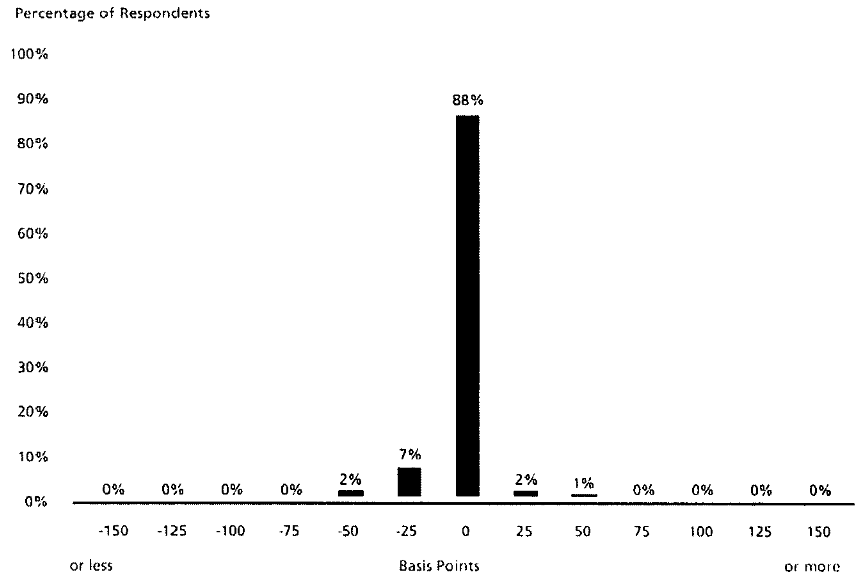


Exhibit 11. Change in Expected Long-Term Rate of Return Assumption



Health Care Cost Trend

Paragraph 39 of Statement 106 describes the Health Care Cost Trend assumption as representing "the annual change in the cost of health care benefits... for each year from the measurement date until the end of the period in which benefits are expected to be paid." This paragraph also makes the observation that "health care cost trend rates may be assumed to continue at the present level for the near term, or increase for a period of time, and then grade down over time to an estimated health care cost trend rate ultimately expected to prevail."

As of December 31, 2007, 73 percent of the companies surveyed disclosed an initial Health Care Cost Trend assumption of between 8.00 percent and 9.00 percent. Sixteen percent used a higher initial trend and the remaining plans disclosed a lower trend assumption. A comparison of the current and prior year is shown in Exhibit 12.

The average initial trend rate was 8.75 percent, down 34 basis points from the 9.09 percent disclosed for the prior year. Just 33 percent of companies surveyed used the same rate (as shown in Exhibit 13). Thirty-six percent changed their initial rate by 100 basis points or more (in either direction).

Exhibit 12. Initial Health Trend Rates

Percentage of Respondents

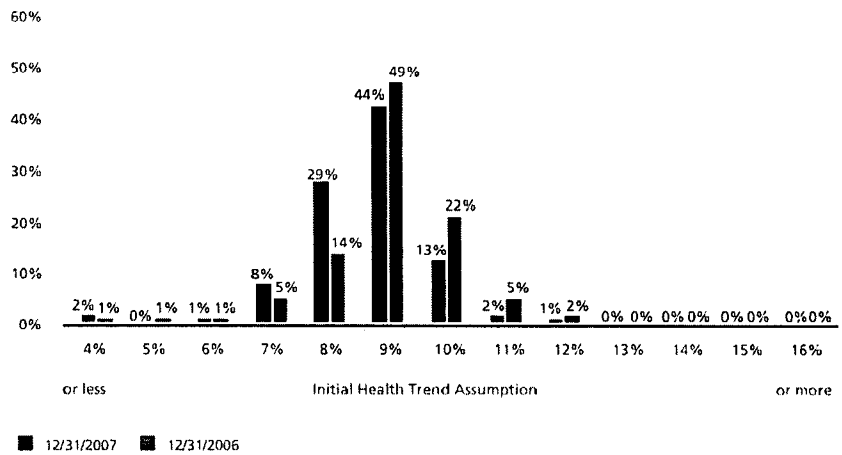


Exhibit 13. Change in Initial Health Trend Assumption

Percentage of Respondents

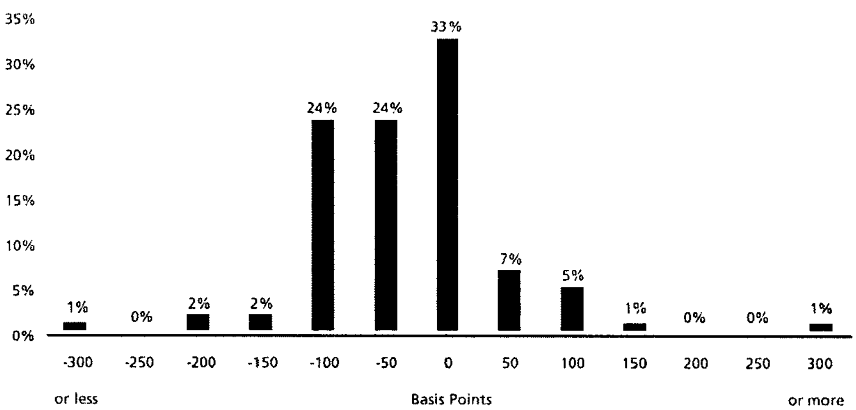


Exhibit 14 summarizes the ultimate health care cost trend disclosed as of December 31, 2007. At the end of 2007, the average ultimate Health Care Cost Trend rate was roughly 5.04 percent, approximately the same as disclosed at the end of the prior year.

Exhibit 15 compares the difference between the initial and ultimate trends at year-end 2007 compared with year-end 2006. Over the year, on average this difference decreased by about 36 basis points from 405 basis points to 369 basis points.

About the Survey

A number of factors influence each company as it selects the appropriate assumptions to measure its pension and benefits liabilities. This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and, as such, can provide an indication of the trends in the marketplace.

Exhibit 14. Ultimate Health Trend Assumption

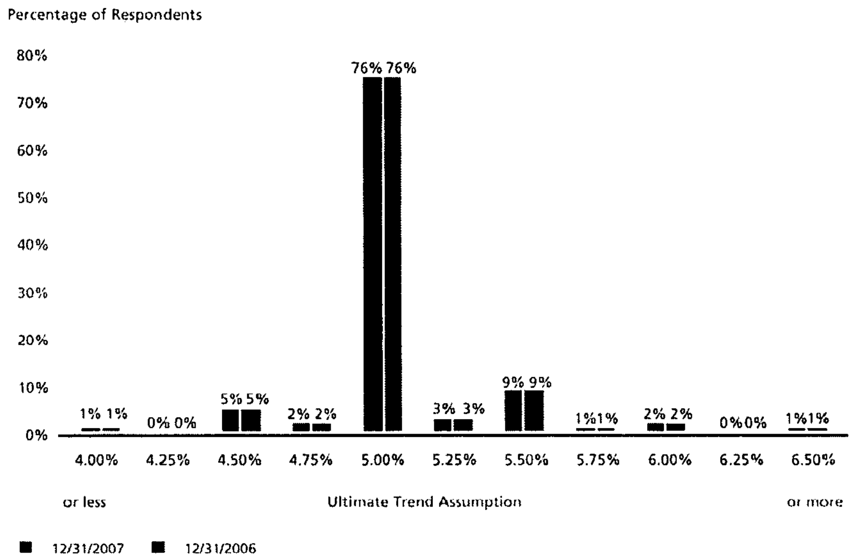
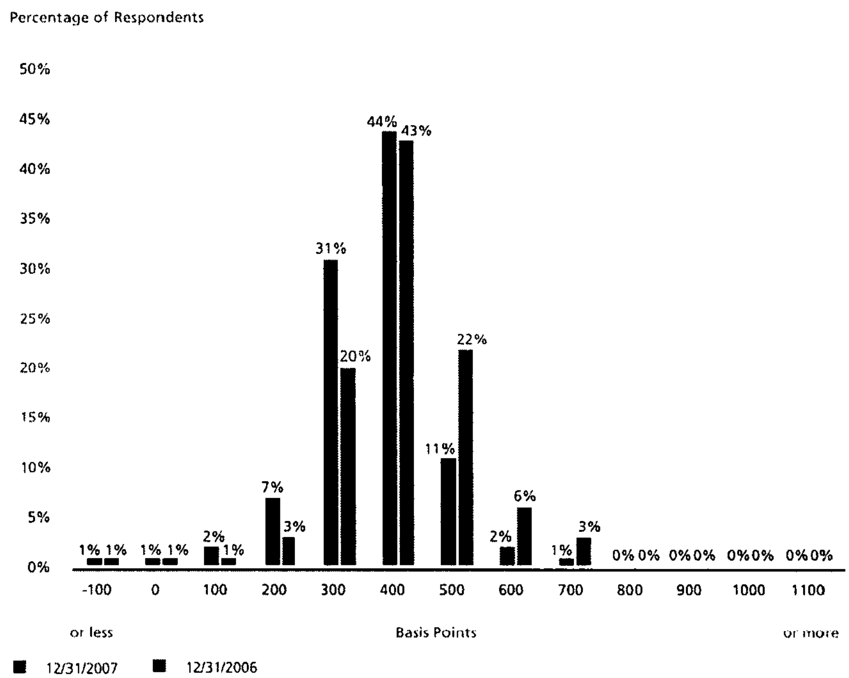


Exhibit 15. Difference Between Initial and Ultimate Health Trends



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